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## UNITED STATES

### Zi Zhongyun on Characteristics of Post-War U.S. Diplomacy

40050220 Beijing MEIGUO YANJIU [AMERICAN STUDIES] in Chinese No 1, 15 Feb 88 pp 7-34

[Article by Zi Zhongyun [6327 0112 4596]: "A Tentative Discussion of Certain Characteristics of Post-War U.S. Diplomacy"]

[Excerpts] This article deals with "Post-war U.S. diplomacy." It does not claim to be exhaustive because of limited space. Instead, it will discuss some of its characteristics and certain common traits of national diplomacy in general and omit what is self-evident. Therefore, the space devoted to certain issues is not necessarily in direct proportion to their significance in U.S. diplomacy.

The post-war international situation and the resultant U.S. diplomacy has the following characteristics:

1. The United States has become a first-rate power in the world, ended its traditional diplomatic "isolation," and expanded on a global scale. This expansion is not motivated by territorial gains; it is an all-around expansion of its sphere of influence.
2. The United States and the Soviet Union, now competing with each other, can exert their influence on the international situation. However, the general trend of development in the past several decades has played down their influence. A more popular view is that the world is now developing from "bipolarization" to "multipolarization." I always consider the term "multipolarization" inaccurate, although it may be harmless to use it to indicate the weakening the influence of the superpowers. However, the rivalry between them is still the mainstream in the international context.
3. The U.S.-Soviet rivalry, and the confrontations between two different social systems and ideologies are interrelated. That is why the anticommunist ideology has to be reckoned with in U.S. diplomacy.
4. The appearance of nuclear weapons has provided the two countries with a new means of contest—a means that is vastly different from those used in any previous historical period. These weapons on the one hand spur on an arms race and increase the danger of war, and, on the other hand, practically rule out the outbreak of any war directly involving these two countries. That is why the United States has to adopt a unique foreign policy.
5. The success of former colonial or semicolonial countries in their struggles for independence and to develop themselves is a new post-war phenomenon. For the United States, this is an opportunity to replace the old colonialists, such as Great Britain and France, and to "fill the vacuum," as well as a problem. The theory of

racial superiority, formerly serving openly as the foundation of imperialism and power politics, has met with strong resistance and is being discredited by people throughout the world. At the same time, there is the problem of winning over the vast intermediate zone and mass support. All these considerations infused new characteristics into U.S. diplomacy.

### The Changed and the Unchanged Yalta System

Post-war U.S. diplomacy with its impact on every part of the world is very complicated. However, its main concern is with the contest with the Soviet Union. This is the starting point as well as the end result. The so-called "global strategy" means the strategy to deal with the Soviet Union. Of course, the same situation exists on the Soviet side. U.S.-Soviet relations are sometimes tense and sometimes relaxed; sometimes offensive, and sometimes defensive. However, their relationship as opponents to each other cannot be changed.

How did this situation come about?

Let us for the time being leave out the old historical background and confine our discussion on the recent periods. In the later stage of World War II when victory in the anti-Fascist struggle was in sight, the United States, Great Britain, and the Soviet Union were already bargaining on the demarcation of their spheres of influence in a series of meetings from Teheran to Potsdam. In a meeting which took place in February 1945 at Yalta, Crimea, they reached an agreement which determined the pattern of post-war spheres of influence. This meeting also marked the beginning of their disputes.

Soviet concerns are not within the scope of this discussion. On the U.S. side, the main concern of the Roosevelt Administration was to end the War as soon as possible and, at the same, to minimize U.S. casualties. Therefore, it wanted the Soviet troops to play a more active part. The Yalta system was based on the occupation of territories by either side, and, as soon as the War ended, the United States and the Soviet Union were the only countries to compete for supremacy.

Having amassed a war fortune, the United States became the largest creditor and exporter. Militarily, it possessed the largest naval and air forces and for the first time had troops stationed in both Europe and Asia. It was also the first to produce and use atomic bombs and was able to keep this monopoly for 4 years.

Economically, on the other hand, the United States' needs for a world market and for raw materials now far exceeded the pre-war period. Its major industries, such as those of vehicles, machine tools and steel largely depended on exports and its agricultural exports exceeded one-third of the total export. At the same time,

U.S. imports of raw materials, such as manganese, tungsten, chromium, other rare metals, and petroleum were daily increasing. On the whole, the U.S. economy has gradually become inseparable from world economy.

U.S. leaders, politicians, and mass media have combined to form a strong motive force for global expansion, and to create an "omnipotent United State" fantasy. Therefore, the idea of becoming a "world leader" with the belief that a "United States' Century" of "Pax Americana" had arrived gradually dominated over the traditional "isolationism."

The Soviet Union is behind the United States in economic strength. Furthermore, it made heavy sacrifices during the War and had to take time for recuperation. However, it also had its advantages. Many socialist countries appeared after the War in Eastern Europe which belonged to the Soviet sphere of influence. In Asia and Western Europe, the communist parties of some countries became stronger after their performances at the forefront in the war of resistance, and had won over the masses. In Asia, the vigorous movements for national independence, merged with socialist revolution, naturally made Marxism easily accepted. The Soviet Union took an active, passive, or even restraining attitude toward these movements according to its own requirements. However, as the United States saw it, these movements were parts of Soviet "expansion."

On one side, the United States displayed the banners of "liberty" and "democracy," and, as a U.S. scholar pointed out, "believed that it can use its own strength to command the whole world to go capitalist after the U.S. model." (Footnote 1)

On the other side, under the slogan "proletarian internationalism," and based on the logic that "Soviet interests stand for the highest interests of mankind," the Soviet Union demanded the subordination of all socialist countries and the revolutionary movements in all countries to Soviet interests at that time.

Thus the U.S.-Soviet struggle for hegemony became unavoidable. It is geopolitics as well as an ideological struggle between two systems. This was how the ideology of bipolarization was created in post-war United States. The question of ideology will be specially discussed later. In geopolitics, both countries based their arguments on the Yalta system. They accused each other for violating it, although each of them wanted to make some breakthrough. In fact, both parties have basically respected the demarcation lines drawn by this system. The controversy was mainly over certain ambiguous clauses in the agreement, or over the vast intermediate zone left out by it.

Taking an overview of the events in several post-war decades, we can see that all the areas of contention were actually outside the Yalta system. The strategic focus of both the United States and the Soviet Union is on Europe. That was why the United States devoted its

effort first to the consolidation of its European position in the early post-war period. Such was the purpose of the "Truman Doctrine," "Marshall Plan," and NATO. The bulk of U.S. overseas troops were stationed in Europe. However, the Western European situation was actually stabilized after "Berlin Crisis" from 1948 to 1949 when, after a trial of strength, none of them could change the status quo by resorting to war.

According to final documents of European Security Council held in Helsinki in 1975, the demarcation of spheres of influence was confirmed. However, there were frequent changes and upheavals in the vast Asian, African, and Latin American regions. First, the founding of the PRC in 1949 was immediately followed by its alliance with the Soviet Union. This alliance objectively broke down the demarcation of spheres of influence designated by the Yalta agreement. CPC's victory in Mainland China was not the result of U.S.-Soviet contest, but rather the outcome of internal contradictions in China. Furthermore, on the China question, the Soviet Union was prepared to observe the Yalta accord. However, the U.S. policy decisions were based on the view that China's revolution was part of Soviet "expansion." As a result of this erroneous policy, the United States remained hostile to 800 million Chinese people for 20 years. This was a major defeat for post-war U.S. diplomacy, and objectively, the Soviet Union emerged victorious. Since then, all U.S. administrations were hoping in varying degrees to see a Sino-Soviet split. The split actually occurred in the mid-1960's. Basically it had no much to do with U.S. policies, but was nevertheless an important factor in the U.S. decision to improve its relations with China. That was why the U.S. China policy had a lot to do with the Soviet Union.

After the founding of New China, the U.S. policy of "containment" was enforced in the areas surrounding Mainland China as shown by the many bilateral or multilateral military alliances, and the dispatch of U.S. troops to engage in fairly large-scale land warfare on two different occasions. At the same time, in coordination with the "Marshall Plan" in Europe, the "Four Point Program" was introduced to provide economic and military aids to prevent the outbreak of revolutions or the infiltration of Soviet influence into the countries concerned. After the 1957 Middle-East War, the withdrawal of British and French forces provided an opportunity for Eisenhower to advance his "power vacuum" theory. The U.S.-Soviet rivalry in Middle-East continued to intensify up to now.

However, the world in the second half of the 20th Century is, after all, not a world to be equally divided between the United States and the Soviet Union. The most important factor is the emergence of the Third World and the upsurge of nationalism after the 1950's. Since the late 1950's, U.S.-Soviet rivalry in Africa has intensified, usually in the form of "aid." The United States wanted to preserve the status quo. It opposed any nationalist movements against the old order, and viewed

these movements with instinctive misgivings and hostility. Although U.S. investments in the Third World accounted for one-third of its total overseas investments in the early 1960's, and 90 percent of its military aid was given to Third World countries in 1961, most of the beneficiaries refused to side with the United States in the "cold war" and thus could not be forgiven. Besides, racial discrimination was very serious in the United States. The unhappy lot of U.S. negroes naturally did not endear the United States to African people, and the frequent humiliations suffered by African diplomats in the United States further increased the unpopularity of the United States. Latin America is supposed to be a "backyard" for the United States and under tight control within the U.S. sphere of influence. Nevertheless, the nationalist movements in Latin America have an anti-U.S. undertone. What the United States could not tolerate in particular was the success of Cuba's revolution, Castro's declaration of his decision to take the socialist road, and then the Soviet influence which he brought in and which for a time cause a chain reaction in Latin America. Thus the "Bay of Pigs" incident, the dispatch of troops to the Dominican Republic, and the strong support to the pro-U.S. military and political dictators set the United States more and more against Latin America at that time. Throughout the 1960's, in the face of the vigorous currents of national independence, and proceeding from its out-dated "cold war" concept and its desire for hegemony, the United States set up defense posts and made enemies everywhere at the same time. Yet these "enemies" were not closely associated with "communism." This policy turned the United States into a "counterrevolutionary force in a revolutionary world." (Footnote 2) The "Vietnam War" was the pinnacle as well as the turning point of such a policy.

Meanwhile, changes took place in the major Eastern and Western groups. Western Europe's economy recovery was followed by a tendency toward independence from the United States. After De Gaulle's coming to power in 1957, France immediately asserted its independence, demanded equality with the United States, declared that Europe belongs to Europeans, and favored the unilateral action of establishing a "relationship based on detente, understanding, and cooperation" with the Soviet Union. In other parts of the world, the open split between China and the Soviet Union in the 1960's brought about an actual disintegration of the "socialist camp." Then following the incidents in Poland and Hungary in 1956, there was a growing tendency to oppose the tight Soviet control along with the demand for a certain degree of independence.

In this fast changing world, the United State's concept of "either for me or against me" became obsolete, U.S. weaknesses were vividly shown in the Vietnam War which has proved that the United States is by no means omnipotent. It was under such circumstances that the "Nixon Doctrine" appeared in the late 1960's and early 1970's. Nixon was the first president to admit openly that the United State's strength is short of its desire and

that it must shorten its fronts. Essentially, the "Nixon Doctrine" admitted that the United States was by no means omnipotent and wanted those expecting U.S. help to first help themselves. The "doctrine" laid down in every term of U.S. presidency invariably gave the president the power of intervention and expansion; but the reverse was the case with the "Nixon Doctrine." Its essence was a call for U.S. retrenchment.

During the term of Nixon, who was known to be strongly anticommunist, U.S. foreign policy was in practice more pragmatic than idealistic. Signing SALT I with the Soviet Union, adopting the "European Security Council" documents at Helsinki in their final forms, paving the way for the establishment of diplomatic relations with China, withdrawing the Seventh Fleet from the Taiwan Strait, stopping the Vietnam War, withdrawing U.S. troops completely out of Vietnam, and returning Okinawa to Japan were the important events in this period. Generally, the entire 1970's was the period of U.S. readjustment of the deployment of U.S. forces in the world and the period of large-scale U.S. retrenchment. However, this retrenchment was not carried out willingly. In early 1979, when Khomeini came to power, relations between Iran and the United States went bad, and the latter lost a strategic point on which it had invested heavily since the toppling of Mosadeq in 1953. When Iran held scores of U.S. citizens as hostages in 1980 for 11 months, U.S. influence and prestige could be said to be at their lowest ebb.

The Soviet Union has made quite an effort to catch up formidably in the military field ever since its humiliation from the Cuban missile incident in 1962. Therefore, in the later part of the Carter administration, and particularly soon after Reagan took office, the United States again took a hard line toward the Soviet Union. The ideology behind the foreign policy of the Reagan Administration was based on the concept of bipolarity once again. There has been a large increase in military expenditures in an effort to regain its superiority over the Soviet Union. It viewed the complex problems of the Third World in a "cold war" context, and applied more pressure on the people instead of being concerned with their demands.

The United States has taken a zigzag course in its foreign policy. However, the situation of the 1980's is vastly different from that of the 1950's. One of the new elements is that the socialist countries, including the Soviet Union, has conducted reforms in varying degrees, and the prestige of the United States itself is no longer what it was. Therefore, the Reagan Administration cannot push its hard line indefinitely. In fact, it has adopted certain realistic and moderate policies. Any way, one thing remains unchanged: the Soviet Union is in the final analysis, the chief adversary to U.S. diplomacy, and vice versa.(tab)The Yalta system, with the division of Europe as its core, however, has not undergone any qualitative change.

### National Interest and Ideology

Ever since nations existed, the goal of foreign policy of every nation is, in principle and under normal circumstances, the preservation of national interest. The way for a nation, especially a strong nation, to determine its interests is usually related to its traditional national ideology. At the same time, its ruler must have some plausible "theory" or argument to win the people's support for a policy that is actually based considerations of interests.

Although the concept of "national interest" and "national security" of the United States, as a superpower after the war, has affected the whole globe, the United States still cannot refrain from propagating its social system, value concept, and lifestyle throughout the world.

After the war, the "mission" of propagating the system of Western democracy devolved on the United States. However, the opponent which it encountered everywhere has been the Soviet Union under the leadership of a communist party. For some time, leftist revolutionary movements were also developing vigorously in many countries. Therefore, U.S. ideology in diplomacy was vividly manifested in "anticommunism." To what extent is U.S.-Soviet confrontation attributed to geopolitical considerations or to the mischief of ideology? Since the Soviet Union happens to be led by a communist party, it should be attributed to both. Supposing that a Tsar instead of communist leaders is in charge in Kremlin and possesses the same strength with the same expansionist tendency, would this confrontation be the same today?

In 1899, the United States advocated the "open-door" policy mainly because of China. This policy was certainly applicable to all the powers then planning to partition China. However, the spearhead was directed mainly at Russian expansion in Northeast China. Had Russia not been defeated in the Russo-Japanese War, U.S.-Russian conflicts in Asia would be inevitable. The demand made by the Soviet Union in the Yalta Conference regarding the Far East later on was to recover the privileges Russia enjoyed in this region before the Russo-Japanese War. Thus, it seems reasonable to infer that today's U.S.-Soviet contest for hegemony is the continuation of a historical development interrupted by two World Wars. This contest has nothing to do with doctrines or systems.

But this is not entirely true. In the history of U.S. diplomacy, there has always been a controversy between "realism" and "idealism." The two are sometimes merged and sometimes set against each other over specific issues.

Let us take the United States' attitude toward the Russian Revolution. President Wilson was then well known for his "idealist" diplomacy. He considered it his duty to

propagate the U.S. "democratic" system and also advocated "self-determination." According to his principle, people have the right to choose their own government or political system and no other country has the right to interfere. These two points are usually mutually contradictory in practice. In fact, they only served Wilson's purpose of leading the United States to a more active participation in world affairs. The Russian Revolution which overthrew Tsarist autocracy in 1917 was at first well received in the United States by both the government and the public. After the Bolsheviks overthrew Kerensky, however, the Western bourgeoisie whipped up a surge of "Redphobia" and the United States was no exception. Then this "phobia" continued to spread and jeopardize American people's religious freedom and civil rights. U.S. "nonrecognition" of the Soviet Union lasted 16 years. In consideration of mutual economic benefits, however, U.S.-Soviet trade and U.S. investments in the Soviet Union developed to a certain extent. It was not until the serious economic crisis of 1933, when the majority of U.S. entrepreneurs believed that the recognition could help improve U.S.-Soviet trade and alleviate the economic crisis, that the United States established diplomatic relations with this country. If what happened in Russia were a bourgeois revolution, the United States might not have persisted in its nonrecognition for such a long time, because we cannot see how the nonrecognition would serve U.S. national interest. Therefore, the ideological factor, namely, the resistance and hostility against the communist ideology, was dominant. Of course, a closer observation will show that the U.S. policy-makers at that time certainly considered the long-range "national interest" and understood that a global victory for communism would mean the end of capitalist United States. In this sense, "national interest" and ideology are identical.

After World War II, the United States implemented its anticommunist principle in its diplomatic strategy for an overall contest with the Soviet Union and turned it into a comprehensive diplomatic ideology. The "Truman Doctrine" formally laid down in March 1947 served as the foundation of such a diplomatic ideology. It marked the beginning of a general line (let it be so called) of post-war United States. The "Truman Doctrine" in fact gave rise to the "indirect aggression" logic according to which, the revolution led by a communist party in any country, or any national movement that is unfriendly to the United States and friendly to the Soviet Union, was called Soviet "indirect aggression," which would "destroy the foundation of international peace," and "jeopardize U.S. freedom and security," so that the United States must help the people of these countries preserve their "free system." Thus the term "anticommunism" became synonymous with "free system" and was placed above all international standards and the principles of "democracy" and "self-determination" advertised by the United States itself. This ideology permeated through the course of events including the international application of Truman's "containment" policy, Dulles' "rollback" policy, Eisenhower's "power

vacuum" policy, and Kennedy's "new frontier" policy as well as Johnsonism in the "Gulf of Tonkin Resolution," the quagmire of the Vietnam War from which the United States could not extricate itself, the dispatch of troops to Grenada and the support for the Nicaraguan contras by the Reagan Administration. ...Needless to say, the U.S. policies of intervention in China's civil war, and prolonged "nonrecognition," "containment," and "isolation" were also based on this ideology, this "rational" ideology.

How strong is the public support for U.S. "anticommunism" after all? Is it just an excuse for the ruling group to win popular support for its foreign policy or a means used by the policy-makers to add fuel to the fire of an innate U.S. ideology? The answer cannot be given in an over-simplified way; it calls for an objective and sober analysis of the situation through the mist of prejudice caused by the mutual attacks and slanders and the distortion of truth in a "cold war" atmosphere.

The kind of ideology, which permeates through the diplomatic thinking mentioned here, mainly refers to some people's ideas having a direct or indirect bearing on the foreign policy; the "silent majority" are rarely concerned with foreign policy. However, it does not mean that the policy-makers can entirely ignore the ideology and psychology of the citizens who occupy a leading position.

The spirit of the Constitution, on which the United States is founded, is based on individualism and private property and is entirely different from Marxism as an ideology. To ordinary Americans, "communism" is the same as "Stalinism" which is opposed to the "democracy," "freedom," and "human rights" they cherish, and which they instinctively resist. Also because of the unique historical and social factors in the United States, not only "communism," but even "socialism" cannot find the soil in which to thrive. On the whole, compared with the capitalist countries of Western Europe, the United States has stronger rightist leanings in its social ideology. Furthermore, the Tsarist traditions inherited by the Soviet Union in its foreign policy as shown by its big-nation chauvinism, its ruthless infringement on other countries' territorial sovereignty, and its intervention in their domestic affairs, made the argument of "communist" expansion easily acceptable by the American people.

There is also an inborn superiority complex in traditional American ideology in addition to a feeling of racial superiority. Consequently, they think that they have a "mission" to propagate the American system and American values, and to "educate" the "second-class nations" throughout the world. In clerical language, they have to "save" the heretics' "souls." Whenever the name of the United States is mentioned in the writings and speeches of earlier American thinkers and its national founders, such terms as "God's favorite," the "knight of freedom," and even the "guardian of human destiny"

are used profusely. (Footnote 3) The continued American expansion since the 19th Century culminating in the dispatch of troops to other countries is needed mainly for the development of capitalism and motivated by this ideology. It was also the source of what Wilson called "idealist diplomacy, and there is little wonder that it led to U.S. intervention in other countries' domestic affairs and even its infringement on their territorial sovereignty. After the War, this ideology and anticommunism combined to form the "Truman Doctrine." With the backing of national strength, this doctrine became a kind of "superpower psychology," according to which, the United States has the right of intervention and the right to "guide" people of all countries onto the road of development.

However, passive disapproval of "communism," (whatever its implication may be) and the common feeling of national or racial superiority (either conscious or subconscious) are after all two different things. The principle of "religious freedom" and "self-determination" actually runs counter to intervention in other countries' domestic affairs. Furthermore, American diplomatic thought has the tradition of "isolationism." After World War II, the popular demand in the United States was to live happily in their own vast national territory without minding other countries' business. That was why in implementing foreign policy of global expansion, the government policy-makers must turn this ideology, either present or hidden in American people's minds, into an active, extrinsic feeling, or even fanaticism. They must create this atmosphere in order to make the opposing views untenable. The speech in which Truman announced his "doctrine" was a deliberate attempt to create a sensational "communist threat" in order to whip up a communist-phobia atmosphere. The way the Soviet Union treated Poland and the Czechoslovakia Incident of 1948 did him a great service. Truman succeeded, and for some time in the late 1940's and early 1950's, an anticommunist atmosphere prevailed in the United States until it reached the vitriolic point with the emergence of "McCarthyism." As a result, it boomeranged and hurt the principle of "democracy" and "freedom" which the American people upheld.

The fanaticism in the period of McCarthyism has passed and is now discredited by most Americans. This is typical of the political life in the country, because American people cannot tolerate the suppression of freedom of thinking and speech.

It certainly cannot be claimed that "anticommunism" is the entire substance of the U.S. ideology and foreign policy. Some thinkers and politicians opposed the principle of placing "anticommunism" above all things. Some of them, out of considerations of real benefits, advocated a detente and coexistence with the Soviet Union, while still others advocated different treatments for different socialist countries in order to concentrate their resources against the Soviet Union. Those who desire to implement the principles of democracy and



freedom more thoroughly felt uneasy with the support given by the United States to some really autocratic, reactionary, and corrupt regimes in the name of opposing communism, while those with a better understanding of the nationalist aspirations of the Third World people did not agree with the idea of considering the policies toward these countries entirely on the premise of a contest with the Soviet Union. However, the so-called "authoritarianism-better-than-totalitarianism" theory gained the upper hand with the argument that an "authoritarian" system might be receptive to U.S. influence and possibly be changed to a "democratic" system, while a "totalitarian" system could not, so that the United States must "choose the lesser one of two evils." Thus the United States found some "theoretical" basis for its support to unpopular, despotic, and reactionary regimes. These viewpoints, with their growth and decline in alternation, combined to form a comprehensive pressure on foreign policy.

After the Vietnam War, the pattern of U.S. diplomatic thought received a blow of unprecedented severity. Some thinkers at home began to have serious misgivings about the principles upheld in U.S. foreign relations and about its strength for world domination. A "revisionist school" appeared in diplomatic circles. Its members reassessed the United States' diplomatic history, diplomatic thoughts, and particularly the cause of the "cold war," disagreed with the view that the Soviet Union was solely responsible for the "cold war," refused to accept the conclusion that anything that is anticommunist is rational, and took a more critical view of post-war U.S. diplomacy. People in liberal academic circles also generally oppose U.S. involvement in the Vietnam War and criticized U.S. foreign policy to varying extents. The Carter Administration's "human rights" diplomacy had a strong ideological undertone. However, as he believed, one of the lessons learned from the Vietnam War was that the United States should not insist on supporting the extremely unpopular regimes in the name of opposing communism. Therefore, besides exerting pressure on the Soviet Union in the name of "human rights," he gave certain considerations to the democratic demands of Third World peoples and had some reservation about aids to despotic regimes.

U.S. conservatism resurfaced in the 1980's. On the world scene, the Soviet Union's expansion of the 1970's, Vietnam's invasion of Cambodia immediately after its victory in the anti-aggression war through the sympathy and aids from peoples all over the world, China's revelation of the seamy sides of the "Great Cultural Revolution" in the course of correcting its errors, and the setbacks universally encountered by the socialist countries in economic construction have objectively encouraged the growth of international conservatism. More important still, the feeble United States image revealed by Iran's action in taking U.S. hostages gave a severe blow to Americans' habitual superiority complex and counteracted the so-called "aftermath of Vietnam War" psychology. It was in this ideological trend that Reagan won his

election with the slogan of "national rejuvenation." The bipolarity concept and anticommunist ideology were even more obvious during the Reagan Administration. While in Great Britain, Reagan himself bragged about "dumping Marxism-Leninism on the trash heap of history." In U.S. relations with the Third World, the so-called "authoritarianism-better-than-totalitarianism" theory was picked up by "new conservatism" theorists and used as a means to justify their action. However, the situation now is vastly different from before the "cold war." As far as ideology is concerned, communist movements are apparently at a low ebb, and the "socialist camp" in its original sense no longer exists. The United States could no longer use such generalizations as countering "communist threat" as a call to arms. That is why in practical diplomacy, considerations of geopolitics have surpassed the ideological factor.

However, this does not mean that ideology is fading out in U.S. diplomacy. It is only the views of certain people in the United States that the present weakening of socialist and communist attractions means a triumph to Western ideology and an excellent opportunity for the United States to assert its influence. In the long run, ideology is still an important factor, although short-term policies are more frequently based on realistic political considerations.

### **The Means To Implement Foreign Policy**

The use of power to back up diplomacy is what the United States has in common with the world powers of the past. The United States practices power politics. In December 1945, Truman formally set the task of "enforcing our will for peace with strength," established the concept of a "general security program," and clearly laid down the principle of identity of diplomacy and military power. (Footnote 4) In fact, people usually feel the presence of its military forces in U.S. foreign relations. There have been many instances of its direct or indirect military action, armed intervention and threat to use force whenever political means failed to accomplish its purpose. However, because of the post-war situation and the characteristics of the United States itself—all described at the beginning of this article—the means used to implement its foreign policy has the following new characteristics.

#### **1. Alternation of Arms Race and Disarmament Talks**

There may be different views as to whether the appearance of nuclear weapons can symbolize a historical period. However, one thing is certain: both the United States and the Soviet Union, two great nuclear countries armed to the teeth, fully realize that, no matter how serious may be the conflicts between them, they cannot resort to war. Although there have been several "crises" between them after the war, they finally retreated after reaching the brink. The United States have used its armed forces on several occasions with the Soviet Union as its intended target; but its direct opponents were the

small Third World countries. It also made careful calculations of the limits of its operations in order to avoid any head-on clash with the Soviet Union. The same course was pursued by the Soviet Union. Thus the more developed is nuclear armament, the more unimaginable would be a direct war between these two countries. That is why it would be more correct to say that nuclear weapons are a deterrence rather than a means of fighting. In common language, they are a means of destructive retaliation that deters the opponent from using them first. For the nonnuclear countries who are friendly, these weapons serve as a means of inducing them to rely on their protective umbrella; for those who are not friendly, they serve as a means of blackmailing. The heated arms race has become a major characteristic of U.S.-Soviet relations. The race applies to both conventional and nuclear weapons, but mainly the latter because they are, first, less expensive and, second, more apt to determine superiority. That is why none of them dares to lag behind. The formulation of a "nuclear strategy" according to existing situations has been a task for every president.

With the continued expansion of nuclear arsenals and the seriously strained U.S.-Soviet relations, both parties are afraid of the increase in war danger. Furthermore, military spending is a heavy burden on them; the demands of people throughout the world for peace, combined with their demands for disarmament, has formed a pressure which cannot be overlooked; and the allies on both sides are afraid to be involved in nuclear warfare. That is why disarmament talks with a view to bringing about a detente have also become a regular feature of U.S.-Soviet diplomacy. In 1961, the United States specially established a "United States Arms Control and Disarmament Agency" to be responsible for policies relating to arms control, research and propaganda. This shows the position occupied by the arms control issue in American diplomacy.

Because of the serious contradictions and mutual distrust between the two countries, disarmament talks are a very difficult and protracted task and can hardly yield results. The reduction of conventional arms would involve the allies on both sides and touch on a wide range of issues and complex problems. Agreement is hardly possible. That is why disarmament is mainly concerned with nuclear arms. Some agreements have been reached in the past several decades, but none of them had any effect in reducing the existing arms on either side. They could only restrict the momentum of their development or their proliferation to regions or countries, and each agreement usually provided a breathing spell for another round of arms race. The agreement between the two countries for the reduction of medium- and shorter-range missiles, despite the very small amounts involved, was the first time after the war for both parties to agree to a reduction of the nuclear weapons already deployed. In this sense, we may call it a breakthrough. People throughout the world are patiently waiting to see the subsequent developments.

## 2. Giving Aid to and Seeking Help from Other Countries

Americans always said that the diplomatic thought of the United States has the tradition of "unilateralism," and the Reagan Administration's foreign policy is believed to be embodying more of these thoughts. If this term is interpreted as clinging obstinately to one's course with little regard or respect for other countries' feelings, it may be reasonable. However, if it means that the United States would act single-handedly and independently, then it is inconsistent with the post-war facts. In fact, a major characteristic of post-war U.S. diplomacy is to implement its foreign policy and preserve its own security and interests by giving large-scale economic and military aid to its allies or other countries. This is rarely seen in other countries in times of peace; it is also contrary to the U.S. traditions before World War II.

The United States gives economic aids to other countries mainly to promote its own economic interests.

In the rivalry between the two systems after the war, the political effects of U.S. foreign aid is equally important. In every administration, U.S. policy makers invariably believed that economic recession and poverty are the causes of upheavals and revolutions as well as the breeding ground of "communism." This theory applies to both Europe and the Third World. The obvious purpose of the "Marshall Plan" was to save Western European capitalism, and this plan has succeeded. It was born against a "cold war" background. Were it not for the political effects of the "Truman Doctrine" and the its preparation of public opinion in advance, it would be very difficult for the U.S. Congress to approve such a huge appropriation, since the United States was not quite financially well off at that time. It was out of the same consideration that the "Point Four Program" worked for Asia and the Third World Countries.

The method of seeking other countries' help for its own security and diplomacy has the following characteristics: first, the use of the vast intermediate zones as the area of U.S.-Soviet contest; second, the United States' desires to avoid a direct clash with the Soviet Union; third, the U.S. practice of offering money, weapons, and advisers, while other countries send their troops into battles, because the United States is unwilling to send its own troops to the battle fronts; and fourth, the possibility for it to make such offers, because its firmly established position as a dollar empire.

The specific channels used are as follows:

1. Utilization of international organizations. For some time after the war, the United States had an overwhelming influence in the United Nations and was able to manipulate the voting for its own ends. The United Nations was in fact one of its important diplomatic tool. Now, although its influence in the United Nations cannot be overlooked, it has encountered frequent opposition and setbacks. It is not accustomed to the idea of

equal treatment for all UN members, and some of its politicians frequently threatened to reduce its membership fees or to withdraw as a means of coercion.

There are also some other international organizations of an economic nature, such as the World Bank, the International Monetary Fund, the Asian Development Bank, the Inter-American Development Bank, and so forth. The United States makes the largest donations to these organizations and at the same time enjoys the right to speak.

2. Various types of military alliance. After the war, the United States formed and participated in many military alliances in various parts of the world, and signed bilateral military treaties with scores of countries and regions. For some time, it succeeded in building an intricate network of alliances on the five continents, so that it could set up military bases and military installations and station its troops in many countries. At the same time, it became more and more involved in various contradictions in many regions of the world. It is always the leader in the alliances, either bilateral or multilateral. It does not share equal rights and responsibilities with its allies. However, the member countries of the alliances do not always share the same goal with the United States. They are either too "independent" to submit to U.S. demands, or are over-dependent so that the responsibilities of the United States far exceeded its original expectation. Along with the change in the world situation, many multilateral military groups have found it difficult to remain operational. After the "Nixon Doctrine," the roles of these groups in U.S. diplomacy were further weakened. Some of them (such as SEATO), have been formally abolished, some (such as ANZUS) exist in name only, and some (such as OAS) are completely out of U.S. control. NATO is now the main organization playing an effective role. Yet the U.S. policy of strengthening its own security through military aids to other countries has not changed. After the 1970's, it has given more military aids and formed more military alliances through bilateral treaties or without any treaty.

3. Supporting pro-American regimes and subverting "unfriendly" governments. This policy was first used in Latin America to preserve and consolidate the traditional U.S. sphere of influence. After the "Truman Doctrine," it was more forcefully used in various parts of the world. This policy demands "sustained" and "undiscounted intervention" in the domestic affairs of these countries or organizations by the United States. The most notable examples are the U.S. support for Chiang Kai-shek against communism in China which ended in failure, and the disastrous Vietnam War.

"Support" and "subversion" are two aspects of the same policy, and the latter is the usual trick used by CIA. As soon as it was founded in 1947, the CIA was assigned to some "covert activities" and has since become world famous. It has been unsuccessful in its sabotage and

subversive attempts against the Soviet Union and Eastern European countries. However, in the Third World from Iran to Guatemala, from Congo to Cuba, and from Chile to Indo-China, its activities were unbridled. For decades, many abnormal changes of governments and even the disappearance of certain political leaders in some countries were attributed to CIA activities. These activities were certainly not well coordinated with the U.S. foreign policy. Sometimes, they got out of control and produced the reverse effects. Anyway, supporting puppet regimes, subversion, and even openly toppling the regimes not to its liking are part of U.S. foreign policy.

4. Trade and technical transfers. This method is different from direct aid, but has the same effect. The United States can use the "most favored nation" and "favored nation" treatment as levers in dealing with different countries. For hostile countries, on the one hand, it uses trade embargo as a means of "punishment" and application of pressure. This policy (including the prohibition and restriction of technical transfers) was used against the Soviet Union, Eastern Europe, China, and Cuba to varying extents after the war. On the other hand, after 1956, the Eisenhower Administration gave Yugoslavia and Poland "most favored nation" status as a means to encourage their separatist tendency. On the whole, if people claim that the United States's positive method of giving foreign aids has been successful on many occasions, then its negative method of restriction and embargo has failed and landed it in a passive position. The reason is that the prohibition of economic exchange is against the law of capitalist development. Furthermore, if an embargo has to succeed, the major trading countries must act in good coordination. The United States was unable to achieve this coordination with its allies even in the 1950's when its control over them was most effective. It will be more difficult later on. An example can be found in recent years when Reagan attempted to prevent, with economic measures, the cooperation between Western Europe and the Soviet Union in a natural gas pipeline project. This attempt resulted in its sharp contradictions with Western European countries and led to the resignation of Secretary of State Haig. These measures ended in failure.

The trade issue itself is subject to economic laws. The United States's trade policy cannot exclusively serve its diplomacy. In the early post-war period, it could, on the strength of its overwhelming economic superiority, afford to let trade serve some of its strategic and diplomatic needs. Now that its economy is facing a formidable challenge and competition, the use of trade as a diplomatic lever will be more difficult.

The United States has not been able to act as it wished in seeking help from other countries to attain its own objectives. That is why in many circumstances, it had actually resorted to direct military action. This is hardly different from the "gunboat policy" of former imperialism. Another tendency is that the position of multilateral

international organizations in U.S. diplomacy has declined. It now pays greater attention to bilateral relations. This has become more evident in the Reagan Administration.

### 3. Cultural Propaganda

Cultural propaganda occupied an important place in U.S. diplomacy, and the United States calls it "public diplomacy." Its main task is for the "support of U.S. foreign policy, or, in other words, political advocacy." (Footnote 5) Generally, propaganda abroad is in common use by all countries for the purpose of promoting cultural exchange and mutual understanding and improving the international image of the country. It naturally defends the national policies, especially the foreign policy.

The United States has always attached great importance to its tradition of culture and education at home as well as abroad. Historically, its cultural and educational undertakings abroad were almost synchronized with its overseas expansion. Every administration supported and encouraged the missionaries and private individuals engaged in these undertakings overseas. The scope of these undertakings is quite broad, and their purpose is not as a rule direct propaganda for U.S. policies.

After the War, along with the global expansion of U.S. influence, cultural propaganda became an official policy adopted after due legislative process in the Congress. In 1953, the USIA was created on the foundation of the "War Information Office." It was put in overall charge of the propaganda organs of various departments stationed abroad. By now, there are more than 200 such organs engaging in various activities in more than 120 countries and operating with certain appropriations by the congress each year. The most influential organ under USIA leadership is the "Voice of America." In addition, the USIA publishes more than a dozen journals in various languages and engages extensively in various forms of cultural exchange. Its affiliation to the State Department show that its main duty is to serve diplomacy.

Because of the anticommunist ideology in post-war United States mentioned earlier, its cultural policy toward socialist countries since the 1940's has become a tool for the "cold war." In 1950, the "National Security Council" formulated the famous NSC68 "security policy" based on an estimation of "the plan of the Soviet Union and the communist world for an all-out offensive." In June 1956, the "National Security Council" issued a policy declaration about "East-West cultural exchange" which explicitly stipulated that the U.S. policy was to "accelerate the changeover to a government in the Soviet Union—a government that would relinquish its predatory policy." (Footnote 6) The "Radio Liberty," beamed at the Soviet Union and the "Radio Free Europe," beamed at Eastern Europe in the 1950's; and the "Radio Marti," affiliated to the "Voice of America"

and specially beamed at Cuba in the 1960's [as published], all had, as everyone knows, the characteristics of incitement to rebellion. The element of hostility and subversion during the "detente" later on might not be so obvious. Yet, because of the United States' full confidence in its manpower and material resources as well as its ideological influence, it has all along taken an active and aggressive posture in its cultural exchange with socialist countries. That is why cultural exchange as the main component of the "Helsinki spirit," as emphasized by the United States and the Western countries, and the free movement of personnel were what they originally strived for and what they are still trying hard to preserve.

The cultural, academic, and educational exchanges with many different features between the peoples of different countries do not as a rule directly serve diplomacy. What is dealt with in this article is only that part of cultural exchange serving as a means of diplomacy. If the purpose of diplomacy itself is to promote friendly relations with other countries on the basis of equality and reciprocity, the cultural exchange serving this purpose would be welcomed. However, for various reasons, the United State's cultural policy usually have the characteristics of coercing other countries, interfering with their internal affairs, and even subverting their governments. That is why it is described in such derogatory terms as "cultural infiltration" which is not only resisted by the socialist countries, but also resented by the Third World countries.

Reviewing the 4 decades after the War, we can see great changes in the world situation and in U.S. foreign policy. If we divide this period into stages, then the retrenchment in the age of Nixon can be considered one stage, to be followed the stage of Reagan's term of office. However, in the author's opinion, the political structure of the world as a whole has not undergone any qualitative change. Up to now, the United States and the Soviet Union are still set against each other. There has sometimes been some shift of the focus in the application of U.S. diplomacy, but so far no prominent change in its leading thought. That is why this article makes no attempt to describe it in stages.

What about the future? Will there be some qualitative change in the 10 and more remaining years of this century? Some U.S. scholars have already talked about the "post postwar period." Has this new period truly arrived, or will it arrive? It will depend on many developments.

Is the national strength of the United States on the decline? Formerly the greatest creditor, it has become a purely debtor country. What do its appalling financial and trade deficits and astronomic national debts mean after all? How long can economic prosperity be preserved by spending the revenues yet to come? Was the nosedive of U.S. stocks in October 1987 just an ordinary phenomenon or a prelude to an economic crisis? Will the existing economic mechanism of the United States be

able to play a regulatory role, and help it overcome the difficulties and survive the crisis? On the whole, will its economic strength be reduced to such an extent that it can no longer maintain its position as a superpower?

A new phenomenon in the world of recent years is the prevalence of reform and opening up in socialist countries. The United States has always welcomed, encouraged, and given material aids to socialist countries other than the Soviet Union, or those socialist countries that tend to take its own road by being free from the Soviet model. However, the Soviet Union too is conducting reforms with great determination. The momentum of these reforms may even exceed the capability of certain Eastern European countries. What will this mean to the United States? How will the success or failure of these reforms affect the Soviet Union? Will it bring about great changes in Soviet foreign policy? How will they benefit or hurt the United States? What is the U.S. reaction to them? What effect will they produce on U.S.-Soviet relations and the world situation as a whole?

The present nuclear disarmament talks and the agreements reached are needed by both sides. Does this mean that a detente can be expected between them and that their dialogue will replace their confrontation? Is this only an intermission before another round of arms race?

Judging from the general international trend, we can see that among the many factors affecting international relations, the economic factor's role seems more and more important than that of military and ideological factors. Along with the reform and opening up in socialist countries, the role of ideology in international relations will be further reduced. International disputes in recent years have proved that armament in the United States and the Soviet Union which far surpasses that of other countries has but limited effects. In other words, national influence on world affairs is by no means in direct proportion to armament. Economic relations, in terms of both cooperation and friction, are now occupying an increasingly important position. If these conditions continue, will the contradiction between the United States and some other country or countries be some day more serious than U.S.-Soviet contradictions? This situation may be produced by the fierce competition between the United States and another developed country in world economy, or by the Third World countries' intolerance of the wide gap between the rich

and the poor. Among the Soviet allies, will their economic cooperation with the West be some day conducted on a larger scale than with the Soviet Union with the result that the CEMA will play a much smaller role? Will Eastern Europe and Western Europe be closer together or wider apart?

Finally, supposing that both the United States and the Soviet Union can maintain their positions as superpowers, will it be possible for them, under certain conditions, out of mutual need, or in consideration of their identical interests in certain region, to resort to their Yalta tactics once again and come to some agreement by sacrificing some other country's interests? Or, under some new conditions, will these two countries use their own influence to promote world peace?

Some of these questions have already found some clues to their answers, while others are purely hypothetical. The time is still too early for conclusions. We can only say that we are not able to discover any basic change, because some of the things we imagine are still far, far away. However, one thing is certain: the possibility of a sharp confrontation which may lead to war between the two countries is becoming increasingly slim. A return to the "cold war" of the 1950's is no longer possible.

As for the United States's influence on international affairs, gone are the days when it could manipulate the United Nations as it did in the 1950's. The focus of world power is gradually decentralized, although the positions now occupied by these two superpowers cannot be taken over by other forces. Therefore, in the foreseeable future, the mainstream of U.S. diplomacy will continue.

#### Footnotes

1. Stephene Ambrose, *Rise to Globalism: American Foreign Policy, 1938-1980*, George Banta Company Inc., 1980 p 105. 2. Thomas G. Paterson, *American Foreign Policy: A History Since 1900*, D.C. Heath and Company, 1983 p 506. 3. For details, see Michael Hunt, *Ideology and American Foreign Policy, 2 Visions of National Greatness*, Yale University Press, 1987, pp 19-45. 4. For text of Truman's speech, see *Public Papers of the U.S. Presidents, Harry Truman, 1945* pp 547-560. 5. Allen C. Hansen, *USIA, Public Diplomacy in the Computer Age*, Praeger, 1983, Preface, p ix. 6. Yale Richmond, *U.S.-Soviet Cultural Exchanges, 1958-1986: Who Wins?* Westview Press, 1987, Appendix A. p 135.

## NATIONAL AFFAIRS, POLICY

### Minister on Reforming Materials, Equipment Management

OW0806141488 Beijing Domestic Service in Mandarin  
1500 GMT 5 Jun 88

[Text] Addressing the national conference on reforming the management of materials and equipment, Liu Suinian, minister of materials and equipment, said yesterday that after several years of readjustments fairly substantial changes have taken place in China's conventional management of materials and equipment — a system plagued by overcentralization, rigid control, disregard for market mechanisms, and ignorance of the law of value. While the market of production means has now become more normalized, he said, these changes are still far from being able to keep pace with the needs of a planned commodity economy.

Commenting on the plan the State Council Leading Group for Restructuring Management of Materials and Equipment has drawn up to restructure the system — a plan which has been approved by the State Council — Liu Suinian said the plan is meant primarily to tighten control of vital materials and develop the production means market to ensure the needs of the state's key projects.

The minister said: To establish a well-managed production means market takes time. First of all, the state will reduce the varieties of materials subjected to state distribution so that more materials are available on the markets. In this regard, it will popularize the Shijiazhuang's experiences in developing the production means markets. Secondly, positive steps will be taken to restructure organs in charge of materials and equipment, and supply and marketing so that the complex, multiple management can be greatly simplified. Following the reduction of the rolled steel inventory by over 1 million metric tons last year, the nation will continue to reduce the rolled steel inventory by another 1 million metric tons this year. In this connection, the Ministry of Materials and Equipment urges all regions and departments to make sure that their affiliated grassroots units will implement the reduction plan. Supervising the implementation of the plan, banking facilities will double the interest of the undistributed or growing portions, and suspend new loans to the owners.

### Economic Information System Modernized

OW2905010588 Beijing XINHUA in English  
1430 GMT 28 May 88

[Text] Beijing, May 28 (XINHUA) — China is speeding up construction of a sweeping economic information system to meet the needs of its modernization drive.

In an exclusive interview with XINHUA, Zhou Hongren, Deputy Director of the China State Economic Information Center, said the system includes 52 advanced large-scale computers, more than 2,300 data

entry keyboards including personal computers, and a workforce of about 4,500 technicians.

The information system, once completed, will incorporate 20 state and professional economic departments and will collect data from 2,500 cities and towns on 400,000 enterprises.

The planned commercial economy requires accurate and sensitive information to realize its goals, Zhou said.

Enterprises need good market information to make their decisions, too.

So the speedy construction of the state economic information system is an important step to promote political and economic reforms in China, Zhou said.

The Chinese Government started to explore the applications of the computer to economic planning in 1975.

Computers have helped China work out input and output tables, develop macro-economic models, analyse survey results, and study various aspects of the national economy. They were used to process the census in 1982.

Zhou said the China State Economic Information Center has established an information network connecting all provinces, cities and autonomous regions as well as all ministries. It has 87 branches in central and provincial governments.

He said China has decided to construct a "data pool" as the center of the development of information resources.

More than 10 pools have been completed or are under construction. They deal with the macro-economy, state legal provisions, international revenue and expenditure.

Zhou said the government will build a state economic data pool complex to be completed in 1990. The complex will include more than 130 information pools covering environment basis, comprehensive control, supervision, circulation, and statistics.

### JINGJI YANJIU on Diagnosis of Inflation

HK2705124188 Beijing JINGJI YANJIU in Chinese  
No 4, 20 Apr 88 pp 3-10

[Article by Yang Zhongwei (2799 0112 0251), Zhang Shuguang (1728 2562 0342), Wang Cheng (3769 6134) and Han Zhineng (7281 0455 5174) of the Economic Research Institute under the Chinese Academy of Social Sciences, written in March 1988: "A Diagnosis of the Inflation in China"]

[Text]

#### I. The Proposal of Questions

The contemporary discussions on the issue of inflation in China mainly involve the following questions: First,

what are the definition and weighing index of inflation, and, on the basis of such definition and index, what is the assessment on China's level and trend of inflation. Second, it is about the causes for and the mechanism of inflation in China.

For the first question, some people hold that inflation referred to the general rise of prices (Footnote 1) ("On the Development Mechanism and Structural Performance of Recent Inflation in China" by He Daofeng and so on, JINGJI YANJIU No. 11, 1987). But it seemed that there was no discussion on the type of price index to be used. Generally speaking, the gross index of retail price and the index of cost of living of staff and workers, which are announced by the State Statistical Bureau, continue to be used, though some people use the estimated figures of index on the price of means of production. Moreover, some people hold that in addition to the rise of prices, inflation might take place in a hidden way. Its weighing index shows a decelerated speed of currency circulation (Footnote 2) ("Socialist Macroeconomics" by Dai Yuanchen, Chinese Finance and Economics Publishing House, 1986 ed. p 273). Judging from this assessment, I hold that inflation exists in China in both the exposed and hidden ways, though I believe that, on the extent of inflation, there are differences between a mild inflation and a moderate inflation. Still, some people hold that there was no inflation in China and that the increased issuance of currency and the decelerated speed of currency circulation were resulted from commodity and credit development in the economy. These assessments, while being true to a certain extent, are one-sided thinking. Under the present conditions of price formulation mechanism in China, a general price level cannot comprehensively and correctly reflect the situation of inflation, while people advocating the coexistence of the two types of inflation cannot come up with a general formula for determining the level of inflation. In the case of China, we can clearly come to a conclusion about the issue of inflation in contemporary China once we have the basis for making our assessment. Different assessments on whether or not inflation exists in China are based on the same index, that is, the supply volume of currency and the speed of currency circulation. Furthermore, none of them can put forward ample evidence strong enough to demolish others' argument. Depending on the extent of inflation in China that they have come to, they use different indexes for their assessment, that is, whether or not we should include the index on the price of means of production. It seems that the pricing and statistics sectors of China still has not provided a comprehensive and reliable general index for macroeconomic analysis.

Generally speaking, we mainly start our analysis with the inflation of demand when probing the causes for inflation in China, and we are relatively weak in assessing the issue on supply. It seems that under China's conditions, which is marked by a mixture of influences by currency and the unified planned economy, inflation is, like the situation under the market economic conditions, simply

a currency phenomenon. The conclusion resulted therefrom on policy is that normal economic operations can be maintained and a stable development can be achieved by depending on the control of supply. On the causes for inflation, our acts will be inconsistent if we take the rapid growth of supply of currency as the superficial cause; and we shall neither be comprehensive nor objective if we take the current enterprise system as the root cause. The focus of China's present economy is not on enterprises. To a large extent, the government and departments play a major role in making decisions on such macroscopic parameters as accumulation and consumption. The present contradiction between the total supply and total demand is a thorny issue affecting China's economy, and is closely related to the issue of inflation, no matter whether in terms of economics or our intensified reforms.

## II. The Definition and Observation Index of Inflation

Essentially, inflation is a normal phenomenon of currency, reflecting a continuous excessive supply of currency over the volume of currency needed by economic growth. It is generally shown in two ways: the first one is an open way manifested by a continuous rise of prices; and the second one is a hidden one manifested by an excessive growth of coefficient of retained currency. Under the system of free pricing, it is mainly manifested in an open way; however, under the system of pricing control, it will also be manifested in a hidden way in addition to the open way. Therefore, it is inappropriate to take inflation as an equivalent of the rise of prices. The definition and observation index of inflation can be expressed in the following formula:

$M / Y$  equals  $K$  multiplied by  $P$  (1)

Of the formula,  $M$  is the supply volume of currency.  $Y$  is the GNP whose calculation is based on a constant price (that is, the real GNP) or the real national income.  $K$  is the coefficient of retained currency.  $P$  is the general price level.

If we turn the formula (1) into a linear one expressed through a changing rate by means of logarithm and differentiation on both sides of the formula, we shall get:  $gM$  minus  $gY$  equals  $gK$  plus  $gP$  (Footnote 2) (by the same token,  $gY$ ,  $gK$  and  $gP$  can also be obtained by the formula  $gM$  equals  $d(\ln M)$  equals  $dM / M$ ) (2)

Inflation will take place if  $gM$  is greater than  $gY$ , that is, the supply of currency continuously exceeds the GNP or the growth of national income. Under the circumstances of inflation, we may take the changing rate of retained currency,  $gK$ , and the changing rate of general price level,  $gP$ , as a weighing index because  $gK$  plus  $gP$  is greater than 0. This means that the pressure for further pushing up prices is resulted from an excessive supply of



currency, or the situation where the supply of which is pushed up by a rise of the price level or the volume of currency retained by various economic sectors is increased.

Let us analyze hereinbelow the general price level  $P$  and the coefficient of retained currency  $K$ .

### On the Issue of Price Index

In their observation of China's inflation, people often use the indexes announced by the State Statistical Bureau, such as the gross index of retail price of social consumer goods and the price index of cost of living of staff and workers. To a certain extent, these indexes reflect in terms of final products and consumer goods changes in the price level. But there are two obvious disadvantages: First, China lacks an index on wholesale prices, and it is therefore not comprehensive to reflect changes in the general price level of the whole national economy by simply using the consumption price index. Furthermore, changes in the wholesale price are generally prior to changes in the retail prices. It is therefore significant for us to diagnose and deal with inflation at its early stage. Second, the formulation method of China's consumer price index is inappropriate to be used as a means for the observation of long-term changes in the price level.

Essentially, China calculates its current price index according to the formula of "P's method," which is:

$P_p$  equals (Sigma  $P_{ii}$  multiplied by  $Q_{ii}$

divided by (Sigma  $P_{io}$  multiplied by  $Q_{io}$

$_{ii}$  multiplied by 100

The price index calculated by this formula includes continuous changes in a weight kuang [2713] during the period covered by a report. Only when there is no change in the weight kuang can it reflect genuine changes in prices. However, this requires three preconditions to be maintained, that is, no changes in the product quality, the variety of products and the structure of consumption during the period covered by the report. Obviously, changes in these factors are minimal in a short span such as a year. Generally speaking, the price index calculated by means of the "P's method" can reflect simple changes of prices between the period covered by the report and the base period (huan bi) [3883 3024], thereby eliminating changes in the price factor in our process of calculating the sum of gross output value of society. However, these three factors change in the long run. The calculation of price index by using the "P's method" will not only reflect changes in the price factor but also those in the weight, which is consisted of product quality, variety and consumption, and is therefore unsuitable to be used as a means of long-term analysis of price level. In order to observe the simple changes of prices in the long run, we must maintain a constant level of quality and variety

of products, and consumption structure. This requires us to calculate the price index in accordance with the "La's [2139] method," whose formula is as follows:

$P_L$  equals (Sigma  $P_{ii}$  multiplied by  $Q$

$_{io}$  divided by (Sigma  $P_{io}$  multiplied by  $Q_{io}$  multiplied by 100

As the price index calculated by the "La's method" fixes its weight on its base period, it is felt that the result is an illusory one. In order to make up for and revise this deficiency, we can separately calculate the influences of product quality, product variety and consumption structure on prices. Only by this can we conduct periodical comparison and scientifically predict trend of price changes. The result derived therefrom is a price index of the "La's method" which is similar to that of the "P's method."

The observation of open inflation is limited to simple changes in the price level and excludes the influences of other factors. Only thus can we make an appropriate diagnoses of inflation. Therefore, when analyzing China's inflation, we must appropriately revise China's current price index with reference to the "La's method", which is similar to the "P's method." In the wake of switch of the macroeconomic system onto the pattern of indirect control, we should correspondingly readjust and improve China's method and system of price index calculation so as to gear to the needs of macroeconomic control.

### On the Issue of Coefficient of Retained Currency

Whenever talking about the hidden inflation, everyone in China always takes a slowdown of currency circulation speed ( $V$ ) as the weighing index. Though some people base their calculations on the same index, they come to an opposite conclusion. This is because the speed of currency circulation is affected by a number of factors, including the depth of lateral structures, the frequency of income payments, the pattern of transaction payments, the scale of purchasing with retained currency, changes in the savings interest rates, the degree of economic monetization, and so forth. To take a slowdown of the currency circulation speed as a weighing index on the hidden inflation is an act basing on the assumption of purchasing with retained currency and that of forced savings. However, those who come to an opposite conclusion base their acts on the economic monetization and the intensification of lateral structures among production departments. As a matter of fact, people who support the above viewpoints do not notice the inherent deficiency of the approach focusing on currency circulation speed.

The currency circulation speed is a concept whose economic content is rather weak. Though it implies proportional relations between monetary revenue and monetary expenditure, or the proportional relations between



monetary demand and transaction volume, it does not explicitly reflect these relations in its form. In a monetized economy, it is determined by the customs and pattern of payments when other conditions remain constant. It therefore cannot explicitly reflect changes in the prevailing pattern of monetary revenue and expenditure in an economy. Changes in the speed of circulation can carry real economic senses only when they are based on the prevailing acts of the economy. It is just because of this that the Cambridge school, led by Bi Gu [1642 0657] and Ma Xie'er [7456 2957 1422], changed the currency circulation speed in Fei Xue's [6316 7185] formula into the coefficient of retained currency whenever the school discussed on the theory of currency volume. In appearance,  $K$  equals  $1/V$ , but the economic contents of these two parameters are great different.  $K$  explicitly shows the prevailing act of an economy relating to monetary revenue and expenditure, so that the economic contents of  $V$ , which is on the other side of the equation, can be explicitly shown in form. It is just because of this that the circulation speed is a factor on which we must ponder when determining the monetary demand. In our consideration of inflation, however, we must not comprehensively diagnose inflation by taking it as an equivalent of price level in appearance. At the same time, it is very difficult to resolve the currency circulation speed in accordance with the reasons of retaining currency. This thus blocks our field of vision in such analysis, and it is difficult for us to explain in our operation why there are changes in the currency circulation speed. The coefficient of retained currency can be resolved in accordance with the reasons of retaining currency. This thus makes things convenient for us to interpret the hidden inflation.

In a market economy and under the system of free pricing, it is full of conditions which are needed by the definition of inflation in formula (1), while formula (2) can also reflects the situation of inflation. In a semi-monetized economy, however, the above formulas show that inflation is limited to a certain extent. Under the conditions of market economy, the supply of currency is an internal variable in which changes are totally influenced by various factors within the economic system. In an economy at the stage of monetization, however, the supply of currency is not a completely internal variable. Not only is it influenced by various factors within the monetized economic system but also by the switch from a non-monetized economy into a monetized economy. In other words,  $Y$  on the left side of the formula (1) is consisted of two parts: one is the monetized part ( $Y_H$ ), and the other is the non-monetized part ( $Y_F$ ). The one which corresponds to  $M$  can only be  $Y_H$  instead of  $Y$ , and there is no relationship between  $Y_{FM}$ . In the progress of monetization, the growth rate of  $Y_H$  is generally greater than that of  $Y$  because of its own growth rate plus the switch from  $Y_F$  to  $Y_H$ . We thus define the rate of monetization of  $H$  as follows:

$H$  equals  $Y_{H/Y}$  (3)

$Y_H$  equals  $Y$  multiplied by  $H$  (4)

Hence, in a semi-monetized economy, the definition formula of inflation is as follows:

$M / (Y \text{ multiplied by } H) \text{ equals } K \text{ multiplied by } P$  (5)

If we turn the formula (5) into a linear one expressed through a changing rate by means of logarithm and differentiation on both sides of the formula, we shall get:

$gM \text{ minus } gY \text{ minus } gH \text{ equals } gK \text{ plus } gP$  (6)

We may see that, by comparing formula (2) to formula (6), the increase of the degree of monetization,  $gH$ , is actually the growth rate of the supply of currency needed by economic monetization. The increase of currency supply, which is boosted as a result therefrom, is needed by ordinary economic operations and must not be regarded as inflation. The value of  $gH$  equals to zero in a fully monetized economy. Inflation will take place only when  $gM$  is greater than  $gY$ . Nonetheless, the value of  $gH$  does not often equal to zero in an economy undergoing monetization, and inflation will take place only when  $gM$  is greater than ( $gY$  plus  $gH$ ).

China's reform of its economic structure will fundamentally change the approach taken by the main economic sectors, the motives of transactions and the basic principles of economic operations, thereby affecting the overall causality. Under the traditional system, the planned objectives of economic growth play a major role. There is no independent policy concerning currency, which is just a means of accounting. This is a passive attitude. When the supply of currency is subordinate to the economic growth that is seemed possible with the availability of excessiveness of supply of resources, the supply of currency will, unlike the situation under the conditions of a market economy, develop internal variables determined by plans, instead of the external variables in the main economic sectors. This thus brings about an illusion of endless supply of currency and other monetary fantasies occurred in a planned economy. The economic growth will be realized by pursuing quantity expansion amidst currency inflation, instead of improving the efficiency amidst the maintenance of a scarce supply of currency. (Footnote 3) (Under the traditional system, the currency inflation does not bring about currency devaluation because of the price control.) Therefore, though we have utilized and further promoted the equation  $gM \text{ minus } gY \text{ equals } gK \text{ plus } gP$ , we gave them economic contents which are different from those we postulated by the theory of currency quantity. According to that theory,  $gM$ ,  $gY$ ,  $gK$  and  $gP$  are random variables. Among them  $gK$  is an equilibrium price and an objective result of diversifying the activities of various main economic sectors under the conditions of a hard budget. Inflation can be controlled provided that the authorities in charge of currency maintains a scarce supply of currency and makes the supply of currency correspond to the economic growth. Under China's traditional system, however,  $gP$  is a constant or is controlled by the planning departments;  $gK$  is out of the question;  $gM$  and  $gY$  are determined

through planning; and gY is not restricted by gM. Therefore, there will be an excessive supply of currency when the economy becomes overheated; and the supply of currency will be reduced when the economic growth has to be cut. Under the conditions of two-tier system, there is no fundamental change in the basic nature of decision made by the administration though the economic interests have become independent and the acts of making economic decisions have been diversified. Furthermore, a relaxed attitude has been taken toward the pricing of some goods though there were changes in one way or another in the approach taken by the main economic sectors, in the motives of transactions and in the basic principles of economic operations. Some of these prices have even become the important parameters anticipated and needed by the main economic sectors for making their decisions. The rate of profit, which is related to the prices, also becomes an index of efficiency during the assessment of management results of enterprises. Under the circumstances of endless supply of currency, there is no fundamental change to the causality between gM and gY, and the assessment system and indexes, which are on prices toward which a relaxed attitude has been taken and which is related to the rate of profit, will lose its objective nature. However, any change only in an overheated economic growth should be resulted from the joint activities by various economic sectors, instead of being solely determined by the relevant central planning units. Therefore, the economic contents and the causality embodied by the above formulas clearly distinguish themselves from that postulated by the theory on currency quantity.

### III. The Actual Diagnoses and Analyze of China's Inflation

#### First, The Diagnoses and Analyze of Price Inflation

It has been pointed out that the retail price index cannot comprehensively reflect the price inflation and the estimated index on retail price of the means of production helps little in making a thorough decision. In order to comprehensively reflect the price situation of the national economy, we have calculated reduced indexes on the national income, as well as accumulation and consumption.

Table One: Reduced Index of China's 1978-1986 National Income (Previous Year Equals 100)

	Reduced Index of Utilization of National Income	Reduced Index of Consumption Amount	Reduced Index of Accumulation Amount	Reduced Index of Retail Price of Social Commodities
1979	104.5	104.9	103.8	102.0
1980	103.7	104.6	101.9	106.0
1981	102.6	102.5	102.6	102.4
1982	101.8	101.6	102.3	101.9
1983	101.6	101.2	102.5	101.5
1984	102.3	101.9	103.4	102.8

Table One: Reduced Index of China's 1978-1986 National Income (Previous Year Equals 100)

	Reduced Index of Utilization of National Income	Reduced Index of Consumption Amount	Reduced Index of Accumulation Amount	Reduced Index of Retail Price of Social Commodities
1985	108.3	107.7	109.1	108.8
1986	105.3 /	105.1	106.0 /	106.0
Average of 1978-1986	103.8	103.7	103.93	103.9

The reduced indexes of utilization of national income and of accumulation amount in 1986 are estimated figures. Source: Calculations based on the "Collection of Statistical Data on National Income (1949-1985)" (China Statistics Publishing House, 1987 edition) and relevant data.

The above table shows that, in terms of volume, the differences between the reduced index of utilization of national income and the index of retail price of social commodities are not great. Yet, the former reflects the overall price situation of the national economy as a whole. Not only does it include changes in prices of consumer goods but also changes in prices of the means of production. The table also shows that, after 1981, the reduced index of accumulation amount was higher than the reduced index of consumption amount as well as the retail price index. This is because the speed of price increase of the means of production exceeded that of prices of consumer goods. At the same time, there was an over-estimation about the growth of accumulation.

It is necessary to point out that changes in the price level reflected by the reduced indexes is also one of the approaches of the "P's method." Like the prevailing retail price index, they do not help us solve problems mentioned in the previous section. It is, therefore, certainly that the data of the above table are results of over-estimation and under-estimation. This is mainly manifested by the following points:

(1) The issue of pricing. On the calculation of price index, the result of calculation based on quoted prices or initial prices is different from that based on transaction prices. The quoted price or initial price is prices listed by the producers on their price lists, and are different from the transaction prices. Generally speaking, under the system of free pricing, the transaction price during an economic recession is lower than the initial price because of keen competition. The price index will therefore be over-estimated if we base our calculations on the initial price. However, the transaction prices will be higher than the initial price if the economy becomes overheated, in which the demand is greater than the supply. The price index will therefore be under-estimated if we still base our calculations on the initial price. The recent economic development of China has been haunted by the problem of being overheated. Though we adopted many measures

for readjusting and controlling the situation, the problem that the demand is greater than the supply remains unsettled. Only in some instances was the problem alleviated to a certain extent. Therefore, the problem of under-estimation of the price level is yet to be solved. Moreover, there are two systems of pricing in China. To a certain extent, the differences between the initial price and transaction price are so great that the degree of under-estimation reaches a wider level. It is necessary for us to conduct systematic investigations on the extent of under-estimation in order to carry out appropriate estimation and correction.

(2) The issue of poor quality. China's price level has been sharply increased in recent years. Is it that inflation is developed when all prices go up? Obviously, one cannot come to this conclusion without any specific analysis. In our study, we based our calculation of price indexes on the approaches of "P's method." These indexes cover the simple rise of prices, as well as the rise of prices because of improved product quality and increased product variety. The latter cannot be classified as inflation. The price index announced by the State Statistical Bureau is determined by calculation and collection approaches similar to those of the "P's method." It includes the rise of price caused by quality difference, and is therefore over-estimated. For examples, 12 inches black and white television sets were the main item of television sets for the 1981-1982 retail prices of major commodities announced by the State Statistical Bureau, at a general unit price of about 400 yuan. The main item in 1983 to 1984 was 14 inches black and white television sets, whose unit price was about 450 yuan, and that in 1985 to 1986 was 14 inches black and white television sets and 18 inches color television sets, whose unit prices were respectively about 450 yuan and 1,400 yuan. Twelve inches and 14 inches black and white, as well as color, television sets are television sets of different specifications and quality meeting different needs. Their price differences are differences of their quality. This kind of price rise caused by quality and variety by way of the improvement of specifications thus brings about the over-estimation of the retail price index. Meanwhile, there are also changes in weight between the base period and the report period because of changes in quality and variety. Though there will not be any problem in terms of overall comparison, there will be the problem of incomparability when we compare the 1985 price level to that of 1983 or 1981 and calculate the base price index. Thus, this kind of price index loses its power of scientific prediction. In order to solve this problem, we should conduct special investigations on price parity based on quality differences, and correct the price index on this basis.

(3) Problems caused by the structure of consumption. In the wake of economic development and improvement of the living standard, there are changes in the consumption structure, which generally follow Engel's law. Changes in the consumption structure will certainly bring about changes in the retail price index because of

the difference in the price level of various consumer goods. The retail price index and the index of cost of living of staff and workers announced by the State Statistical Bureau include simple changes in the price of consumer goods, as well as price changes caused by changes in the consumption structure. For examples, compared to 1981, the 1986 percentage of food expenses in the living expenses dropped from 56.66 to 52.43, that of grain dropped from 12.95 to 8.11, and that of articles for daily use and cultural items increased from 15.23 to 17.95. This thus over-estimated the retail price index and the index of cost of living of staff and workers. In 1986, the percentage of the latter announced by the State Statistical Bureau was 107, of which that of food expenses was 107.2. According to our calculations on the basis of consumption structure in 1981, the 1986 gross price index of cost of living of staff and workers was 106.66 percent, of which the index of food expenses was 106.67 percent.

(4) Problems caused by business volume. The price index can also be influenced by the structure of products and services which are purchased at different prices because of the existence of two-tier price systems. This kind of influence does not represent simple changes in prices. For example, a product may, under the present pricing system, have a listed price, a negotiated price and a market price which are greatly different from each other. Generally speaking, the market price is higher than the negotiated price, and the negotiated price is higher than the listed price. The recent increase of business volume at the market price and negotiated price makes us over-estimate the current price index. In addition, we should determine the weight of these three types of pricing by basing on surveys of the business volume in the market, rather than investigations done by specialists.

(5) Problems concerning the selection of standard products. There are more than 230 standard products covered by China's statistics of pricing, which is more than the Western developed countries such as the United States. This shows that China acts more cautiously in its statistics of pricing. However, the statistic system is not an independent one and the actual work is interfered by the local authorities in many ways. The practice is highly affected by regional principles. In the actual selection of standard products, most places select their local products and expel those made in other localities. As a result of local price control, the price of many commodities is pushed up after series of indirect shipments. For example, beer produced in Beijing will be on sale in the municipality after it is sold to another place at a high price and is later shipped back at a still higher price. When we conduct a statistic survey on pricing, what are selected by Beijing for the category of beer are the local products (at a lower price) but not those from other places (at a higher price) which are actually on sale there. Therefore, the selected standard products cannot represent the actual price, and we have under-estimated the price index.

## Second, the Measurement and Analysis of Coefficient of Retained Currency

According to the inflation formulas (1) and (5), we can calculate a formula for the coefficient of retained currency:

$K$  equals  $M / (Y \text{ times } P)$  (7)

or  $K$  equals  $M / (Y \text{ times } P \text{ times } H)$  (8)

Formula (7) is the one under the conditions of complete monetization, while formula (8) is the one under the conditions of semi-monetization. Subject to the goals of our work, we may have different levels and ranges of analysis, and obtain different values of monetary volume:  $M_0$ ,  $M_1$ , and  $M_2$ .  $M_0$  is the monetary volume of cash;  $M_1$  equals to  $M_0$  plus savings deposits in urban areas plus deposits by enterprises plus capital construction deposits plus deposits by organizations plus deposits in rural areas; and  $M_2$  equals to  $M_1$  plus time deposits in urban and rural areas.  $Y$  times  $P$  is the nominal GNP or the nominal national income.  $Y$  times  $P$  times  $H$  is the monetized portion in the nominal GNP or the nominal national income. In terms of the goal of analysis, this may also be the total retail volume of social commodities.

Table Three: China's Coefficient of Retained Currency from 1978 to 1986

	$M_0$ (100 million yuan)	$M_1$ (100 million yuan)	$M_2$ (100 million yuan)	$Y \text{ times } P \text{ times } H$ (100 million yuan)	$K_{M0}$	$K_{M1}$	$K_{M2}$
1978	212.0	1085.9	1214.8	2931	0.0723	0.3705	0.4145
1979	267.7	1371.1	1537.5	3289	0.0814	0.4169	0.4675
1980	346.2	1731.3	1959.9	3694	0.0937	0.4687	0.5306
1981	396.3	2114.6	2404.0	3953	0.1003	0.5349	0.6081
1982	439.1	2488.2	2853.4	4254	0.1032	0.5849	0.6708
1983	529.8	2949.5	3413.4	4786	0.1107	0.6163	0.7132
1984	792.1	3842.7	4458.0	5835	0.1357	0.6586	0.7640
1985	987.8	4616.0	5457.2	7276	0.1358	0.6344	0.7500
1986	1218.4	5860.2	7049.5	8288	0.1470	0.7071	0.8506

Source: Calculations based on the "China Statistics Yearbook" (1987) and relevant data.

We can see from the above table that the calculation of coefficient  $K_{M0}$  based on  $M_0$  is so small that it excessively under-estimates the volume of retained currency. This further indicates that in the macroeconomic analysis, it is inappropriate to limit the level and scope of study to currency in cash only. The above table also indicates that the calculation of coefficients  $K_{M1}$  and  $K_{M2}$  based on  $M_1$  and  $M_2$  are similar. As  $M_2$  includes the amount of time deposits, however, a larger portion of this kind of currency is generally withdrawn from circulation in that particular year. Consequently, the calculation of coefficient  $K_{M1}$  based on  $M_1$  is more appropriate.

By calculating the ratio of changes in the variables listed in the above table, we can get the following data on  $gM_0$ ,  $gM_1$ ,  $gM_2$ ,  $gY$ ,  $gH$ ,  $gP$ ,  $gK_{M0}$ ,  $gK_{M1}$ ,  $gK_{M2}$ :

Except for  $H$ , all variables on the right-hand side of the formula (8) are known values. But the value of  $H$  may also be determined after a certain extent of estimations and analysis. In order to measure China's coefficient of retained currency, we must prove and analyze China's progress of economic monetization. According to our analysis, we have calculated the monetization ratio of income from considered fictitious assets (I) and the monetization ratio of income from unconsidered fictitious assets (II) as follows.

Table Two: China's Economic Monetization Ratio Percentage from 1978 to 1986

	1978	1979	1980	1981	1982	1983	1984	1985	1986
I	78.5	79.0	79.0	78.8	77.6	78.1	79.4	81.0	81.4
II	82.4	83.0	83.1	83.2	82.2	82.8	84.1	85.3	85.6

On principle, the estimation based on I is relatively appropriate. Because of China's present weakness in statistics on properties, however, there are many problems concerning the estimation of income from fictitious assets. Besides, we need to tentatively use the estimated figures based on II in order to compare with the previous period, though these figures are over-estimated.

Table 3 hereinbelow is about China's coefficient of retained currency in recent years based on the formula (8).

Table Four: China's Ratio of Changes in the Supply of Currency and the Coefficient of Retained Currency between 1979 and 1986

	$gM_0$	$gM_1$	$gM_2$	$gY$	$gH$	$gP^*$	$gK_{M0}$	$gK_{M1}$	$gK_{M2}$
1979	26.3	26.3	26.6	7.1	0.7	4.0	12.6	12.5	12.8
1980	29.3	26.3	27.5	8.0	0.2	3.5	15.1	12.4	13.5
1981	14.5	22.1	22.7	4.8	0.1	1.8	7.0	14.1	14.6
1982	10.8	17.7	18.7	9.0	1.0	0.2	2.9	9.3	10.3
1983	20.7	18.5	19.6	0.4	0.7	1.1	7.3	5.4	6.3
1984	49.5	30.3	30.6	4.2	1.5	5.2	22.6	6.9	7.1
1985	24.7	20.1	22.4	1.6	1.4	0.0	0.0	-3.7	-1.8
1986	23.3	27.0	29.2	7.8	0.4	4.8	8.3	11.5	13.4

\* No corresponding datum is available for these years except for the 1986 GNP figure, which is a reduced index, and we have therefore used the reduced indexes of national income and production volume, which are of similar values.

Judging from the dynamic state of growth rate of currency volume indicated by  $gM_0$ ,  $gM_1$  and  $gM_2$ , we can

see that the variables of China's macroeconomic control are the supply of currency in cash and the scale of loans granted, though the former is the major one. Changes in the supply of currency in cash have been relatively prominent, no matter whether the supply is cut or there is an inflation. In terms of reduction of currency supply, changes in the  $gM_0$  were rather great between 1980 and 1981, and between 1984 and 1985, and the phenomenon of soft landing was absent. Changes in the  $gM_1$  and  $gM_2$  were, however, rather small between 1980 and 1981, and, to a certain extent, were marked by the features of soft landing; whereas the changes between 1984 and 1985 were similar to those of  $gM_0$ , which were still the pattern of crisis management marked by abrupt braking. Judging from the length of such reduction of supply, there would have been some features of soft landing if the figures of  $gM_0$ ,  $gM_1$  and  $gM_2$  between 1980 and 1982 dropped for two consecutive years. Moreover, during the period between 1984 and 1986, only the figure of  $gM_0$  dropped for two consecutive years (the figure dropped little in the second year) and the figures of  $gM_1$  and  $gM_2$  bounced back in the second year, so that the features of soft landing was neither found in this period. Third, the Actual Diagnoses of China's Inflation

By basing on formula (6), we have calculated China's growth rate of currency supply in recent years, the difference between the actual GNP growth rate and the growth rate of monetization, as well as the sum of the growth rate of coefficient of retained currency and the growth rate of price level, and have diagnosed China's inflation as listed in Table 5.

In Table 5, (1), (2) and (3) are the calculation of recent inflation rate based on different requirements for currency volume; whereas (2), (4) and (6) are the calculation of inflation indexes based on different requirements. In accordance with the above mentioned analysis, the figures of (3) and (4) are relatively appropriate. This shows that China's inflation in recent years was the one in which inflation caused by price rise was mixed with the hidden inflation. The level of such inflation was higher than that of a simple inflation by a great margin, reaching 18.8 to 16.3 percent in 1986, or 10 to 12 percent higher than the aggregated index of social retail price announced by the State Statistical Bureau.

Table 5  
China's Inflation Rate From 1979 to 1986

	$gM_0 - gY - gH$	$gK_{m0} + gP$	$gM_{M1} - gY - gH$	$gK_{m1} + gP$	$gM_2 - gY - gH$	$gK_{m2} + gP$
1979	18.5	16.6	18.5	16.5	18.8	16.8
1980	21.1	18.6	18.1	15.9	19.3	17.0
1981	9.6	8.8	17.2	15.9	17.8	16.4
1982	2.9	2.7	9.8	9.1	10.8	10.1
1983	9.6	8.4	7.4	6.5	8.5	7.4
1984	33.8	27.8	14.6	12.1	14.9	12.3
1985	11.7	10.0	7.1	6.3	9.4	8.2
1986	15.1	13.1	18.8	16.3	21.0	18.2

That (1) is greater than (2), (3) is greater than (4) and (5) is greater than (6) in the table is because of calculation error.

#### Fourth, Causes for Two Types of Incorrect Diagnosis

Proceeding from the above viewpoint, we can see that monetization is an impairing factor of inflation. In the wake of economic reforms in recent years, the pace of monetization in China has been quickened. It is estimated that between 1957 and 1982, China's rate of economic monetization was increased by 0.4 percent on average, and was 1.0 percent between 1982 and 1986. Influences of the quickened economic monetization on the supply of currency supply have become an important issue yet to be correctly handled by China in its macroeconomic control. It is just because of mistakes caused by this issue that the deviations on inflation mentioned at the beginning of this article take place. People who regard the slowdown of currency circulation speed and the increase of retained currency as ways of hidden inflation have neglected the development of economic monetization in China. It seems, according to their viewpoint, that the current Chinese economy is a wholly monetized centralized economy. This thus exaggerates the extent of inflation in China. They do not distinguish the wholly nominal GNP,  $Y$  times  $P$ , from the monetized nominal GNP,  $Y$  times  $P$  times  $H$ , thereby calculating the coefficient of retained currency on the basis of formula (8) rather than formula (7). Proceeding from the aforesaid assumption, the actual formula they have used in their calculation of China's inflation is  $gM$  minus  $gY$

equals  $gK$  plus  $gP$  plus  $gH$ . As a result,  $gK$  plus  $gH$  is regarded as a kind of hidden inflation, though they have never put forward such a formula. On the contrary, people who regard the slowdown of currency circulation speed and the excessive supply of currency as the result of extensive development of economic commodities and credit actually negate the hidden inflation. In accordance with our assumption, the actual formula that they have used to calculate China's inflation is  $gM$  minus  $gY$  minus  $gH$  minus  $gK$  equal  $gP$ , though they have never put forward such a formula. This thus minimizes the extent of inflation in China. These two approaches are general conclusions without any profound and meticulous analysis on China's economic development.

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[Article by Li Hongxing (2621 4767 2502), of the Xinzhou Prefecture Administrative Office in Shanxi Province, written in December 1987: "The Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism—Explorations by Xinzhou Prefecture in Shanxi Province in Reforming the Distribution System Within Enterprises"]

[Text] Xinzhou Prefecture in Shanxi Province has, at the same time as implementing the industrial and commercial enterprise contracted operation responsibility system, centered on the enlivening of enterprises and actively explored new avenues for reforming the distribution system within enterprises. Thereby, many previously unheard-of specific distribution forms have appeared. According to incomplete statistics, the wage forms which have been selected by enterprises throughout the prefecture total at least 20. If we look at these numerous and complex concrete forms we can see a characteristic with an innate pattern: The internal distribution of enterprises is more closely linked with commodity exchange outside the enterprise, and is combined more tightly with staff and workers' labor. The market mechanism is slowly entering the area of enterprise internal distribution and is influencing the interests of every staff member and worker. Put in a nutshell, this involves the adjustment of distribution within enterprises under a simulated commodity economy mechanism.

#### **I. The Major Characteristics of the Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism**

The adjustment of distribution within enterprises under a simulated commodity economy mechanism involves the establishment within enterprises of a commodity economy mechanism similar to that within the scope of society, and carrying out distribution within the enterprises through accepting the guidance of information obtained from commodity exchange in society. In Xinzhou Prefecture, about one-third of industrial enterprises are now carrying out experiments in this respect. The specific forms are numerous and diverse but, in summary, they have the following three common characteristics:

1. Reducing the size of the accounting units to provide conditions whereby the enterprise can truly judge the benefits of the different types of labor. Those types of labor which, functionally and specifically, are similar to each other can generally be placed under one accounting unit. At present, the accounting units within these enterprises in Xinzhou Prefecture are generally of five types: 1) Units which have the calculation of product value as their main assessment, such as production workshops. 2) Units which have the calculation of fund-use efficiency as their main assessment, such as supply and marketing sections. 3) Units which have the calculation of the amounts economized in expenditure as their main assessment, such as a factory office or car fleets. 4) Units which have the calculation of the efficiency of investment as their main assessment, such as technological sections and new product research offices. 5) Units which have the calculation of income and expenditure differentials as their main assessment, such as canteens, medical stations, and nurseries.

These accounting units which have been reduced in size achieve, over a quite small range, the unity of rights, responsibilities, and interests. In general all the production workshops have the power to use fixed assets and floating funds and to allocate personnel in that unit, and a certain operational power and power over wages and the allocation of bonuses. Thus they can be seen as relatively independent operational entities. The functional departments and offices outside the production workshops and the reserve units also have relatively independent rights, responsibilities, and interests, and on the precondition of completing their tasks they can have funds contracts and seek their own balances. This results in the natural production units within the factories gaining the position of "economic legal entities" and this prepares them for entering the "market within the factory." In another respect each reduced accounting unit represents a type of natural-form labor. Their scale is not equal and the type is determined through the characteristics of the labor. This facilitates the assessment of the value created by the various types of natural-form labor. For example, the Xinzhou City Porcelain Factory divided its nine workshops into nine accounting units on the basis of the different technologies each engaged in. Then it divided the 0.22 yuan target cost for a standard porcelain article between the various work processes and gave these targets to the accounting units. The mechanized wheel [ji lun 2623 6544] workshop had to produce a blank for 0.082 yuan; the rolling workshop would increase the cost to 0.09 yuan; the semi-finished product coming out of the furnace would cost 0.163 yuan; while the finished product emerging from the enameling furnace would cost 0.22 yuan. These target costs eliminate the transferred portion of materialized labor. That is, they are the value created by the live labor, after social deductions, put in by the workers to produce these products.

2. The establishment of an internal pricing system and internal account-settling organization provides implementation measures for the adjustment of internal distribution. Because money acts as a universal equivalent in socioeconomic activities, and guarantees the smooth carrying out of exchange, within enterprises, if distribution is to be adjusted through a simulated commodity economy mechanism, there need to be general internal prices and a "universal equivalent"—factory money. The enterprises in Xinzhou which are exploring the reform of the distribution system have generally stipulated internal prices. On the basis of the previous year's product sales, and the current year's orders and the price of raw and semi-finished materials, and on the basis of the profits and taxes to be delivered, the enterprises forecast and set down target costs for semi-finished and finished products within the enterprise. That is, they set down internal exchange prices. As these internal prices do not extend outside the enterprise and there is generally only one supplying unit for the semi-finished products at each link of circulation, there is no horizontal competition. There is only vertical product price comparison. Some enterprises are not subject to the influence

of market price fluctuations outside the enterprise for quite sometime and they can maintain relatively stable internal prices. Providing a fairly stable environment for production units is conducive to assessing their labor achievements. For example, the internal prices of the prefectural textile mill and the Dingxiang Phosphate Fertilizer Factory remain unchanged for a year after they are set, and the factory department acts as a reservoir playing a regulatory role in balancing the internal and external conditions. There are also some enterprises which readjust internal prices following changes in the market. For example, the Dingxiang Linen Factory readjusts its prices on a monthly or quarterly basis in accordance with the price rise indices for the major raw materials.

At the same time as fixing internal prices enterprises have established internal account-settling organizations, and some have established banks within the enterprises. All of the accounting units open accounts in the factory bank and store the funds which the factory departments have determined they can use. Then, in accordance with the flow of goods between production links, the bank within the enterprise will carry out appropriate value settlements. In carrying out the account settling, some use internal checks while others use certificates representing money. In this way the value of the semi-finished and finished products in the various production units within the enterprise can, in the exchanges, be assessed through internal prices. As product value is formed through the transfer of materialized labor and live labor, the value created by the various accounting units' labor can be assessed through exchanges within the factory, and the total amount of wages (including bonuses) of an accounting unit is the value created by the laborers in that unit (with the social deductions calculated beforehand). Thus, the different types of labor within an enterprise are all changed into fixed quantities through internal pricing forms, and the enterprise can adjust distribution in accordance with the labor quantities determined by the prices.

3. The linkage of the total amount of wages and bonuses with product value ensures that the regulatory function of market mechanism extends to individuals. After enterprises reduce the size of accounting units and implement internal prices, the labor achievements of the various accounting units all have a value form, which thereby constitutes the value of the total products of the enterprise. This value is manifested through the various target costs of products within the enterprise. The enterprises then link up the total amount of wages and bonuses with product value and separately calculate the production tasks and target cost goals for the various accounting units. The various accounting units then engage in contracted operations and take sole responsibility for their profits and losses. Target costs contain a fixed wage amount and if costs increase it means that wages decrease. Any decrease in costs are seen as workshop profits and through the form of bonuses these are linked with staff and workers' income. Here there are

two situations. The first is that the entire amount is retained for use. For example, the Xinzhou City Porcelain Factory divided the 0.22 yuan target cost for each standard item among the various accounting units.

Then, on the precondition that the production tasks are completed, that amount which is below the target cost is given over entirely to the accounting units for bonuses. Any part which exceeds the target cost is deducted from basic wages. The second is that there is proportional retention. The Dingxiang Linen Factory gives 50 percent of any reduction in costs to the accounting unit for distribution, while for any amount in excess of target costs, 50 percent of that amount is deducted from the total amount of basic wages. In this way, the total amount of wages and bonuses is linked with product value. It is thus clear at a glance that regardless of whether economizing is done in the area of materialized labor or live labor, in both cases it will be manifested in terms of wages and bonuses.

This "linkage" relationship between the factory department and the accounting units is reflected in terms of the staff and workers through the following three remuneration forms:

1. Piecework wages. This is suitable for posts where the division of work is clear, the production linkage relationship is not tight and in a single link it is possible to independently produce a finished product. For semi-finished and finished products which an individual is able to produce, individual piece-rate wages are implemented, while for those semi-finished and finished products which require many people to produce, collective piece-rate wages are implemented. For example, in the piece-rate wage system for the workers in the major production posts of the four large workshops in the prefectural textile mill, the calculation method is: individual (collective) wages equal production volume times unit value times quality fulfillment rate. This method pays attention to both output volume and to quality, and unifies individual and collective income with enterprise and state benefits.

2. Fixed wages. One form is that for products where it is not conducive to use piece-rate wages, it is set down that the completion of a certain amount of work will constitute a standard work hour, and there is a rational receipt of remuneration based on the number of standard work hours completed. In units which cannot independently produce "products", wages and bonuses are received in accordance with how well the overall enterprise quotas are completed. For example, the die group of the machine repair workshop in the prefectural glass factory receives 12 yuan in bonus for each ton of bottles it can guarantee the entire factory produces above the target. Another type is where a team, group, or individual completes, in a way which meets the standards, a piece of work, an intermediate product, or a certain quantity of products. Wages are then calculated on a piece-rate or



graduated calculation basis. For example, in the mechanized wheel workshop of the Xinzhou Porcelain Factory the production of 580 bowls per work hour is set as the quota. In the completion of this quota, each bowl blank produced means 0.0072 yuan in wages. For production above the quota figure, each bowl blank is worth 0.01 yuan in wages. If the quota is not completed, 0.02 yuan is deducted for each bowl by which production is short of the quota. The advantage of this method is that it can guarantee the completion of the basic production tasks and at the same time can encourage production above the quota.

3. Percentage-system wages. All those areas which cannot adopt piece-rate or other wage forms, adopt the method of setting a percentage in determining wage levels. As the total number of targets is 100, it is called the percentage system. The concrete method is that the various work targets are broken down and divided and in accordance with scientific budgeting, the percentage which should go to each is determined. Then, in accordance with the total figure, the amount of wages is determined.

The above three methods are used in an overlapping way in the same enterprise, and in some accounting units two or even three forms coexist and complement each other. All enterprises pay special attention to quality management and, regardless of which remuneration form is employed, they have quality inspection systems. Through a percentage system, several major quality targets are allocated to the various sections and afterwards, on the basis of the quality achieved, a quality coefficient is worked out for each section. The due wages and bonuses are then multiplied by the quality coefficient to determine the actual income. In this way, under this system whereby requirements and output are "linked," staff and workers can obtain their full remuneration only through satisfying quality requirements.

## **II. The Origins and Inevitability of the Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism**

1. This form is a requirement in developing the productive forces and improving economic efficiency subsequent to implementation of the contract system. The occurrence of exploring the distribution adjustment within enterprises under a simulated commodity economy mechanism was a direct result of the task of developing enterprises' productive forces and improving economic efficiency subsequent to implementation of the contract system. After enterprise operators obtained relative independence in taking decisions the major question they faced was how to motivate the enthusiasm of the whole body of workers in developing the productive forces and improving economic efficiency. In this way, active exploration of distribution system reform became a logical extension and development of the contract system within enterprises. The adjustment of

distribution within enterprises under a simulated commodity economy mechanism draws the law of value and the market mechanism into the area of enterprises' internal distribution, and has the function of rewarding the industrious and penalizing the lazy, and rewarding the superior and penalizing the inferior, through their material interests. It is able to effectively motivate the enthusiasm of the staff and workers, reduce material consumption, improve product quality and thereby improve the economic benefits of enterprises. This is the major reason why many enterprises have spontaneously selected the "simulation" form.

2. This form is an objective demand put to enterprises by the commodity exchange relationships within the scope of society. Under socialist commodity economy conditions enterprises become relatively independent commodity producers and operators, and the commodities produced by enterprises must be exchanged through the market. Only thus can the products realize their value and guarantee the enterprises' production is carried out on a new base. Only if enterprises' internal distribution has the information provided by market exchange and only if, in the degree of value realized by the products in exchange, coordination and an equal pace are maintained, will it be possible for the enterprises to continue to exist for any length of time. In this way enterprises' production will be tightly linked with the market, and any change in the market will be quickly reflected in the enterprise and have an effect on enterprises. If an enterprise is subject to market guidance its products will have good sales in the market, the prices will be high, and the profits of the enterprise will thus be high. The enterprise will not change its internal distribution and the income of the staff and workers will not change. This will result in "lag deviation" and will dampen the enthusiasm of the staff and workers and affect production. If the enterprise's products do not sell well, the price is low and thus the enterprise makes small profits or even losses. This will result in "advance deviation" and the enterprise will be trying to cook a meal without rice. It will thus be difficult for it to continue. Therefore, having a simulated commodity economy mechanism in enterprises and using this to adjust internal distribution in accordance with the external market exchange situation has become unavoidable.

3. The market's direct examination and assessment of commodities provides an objective basis on which to assess and calculate the value of the labor of individuals within enterprises. At present, over 80 percent of the products of the industrial enterprises in Xinzhou Prefecture rely on self-marketing. It is necessary to go to the market, face the consumers, and directly receive the consumers' assessments and judgements. In such a situation, the labor expenditure by the producers within an enterprise cannot directly, in terms of the length of labor time, prove social effectiveness. This must be assessed through the unified yardstick of market exchange—the market price. No one can arbitrarily assess how much value is created by individual labor within enterprises or



how much social labor is condensed in a product. These things are assessed by the authority which is constituted by the market. With this yardstick, enterprises can draw the value categories within and quite accurately assess and calculate the value created by the labor of each section. Thereby, distribution can be adjusted in accordance with value and those workers whose labor contribution is greater will get more, while those whose labor contribution is lesser will get less.

4. After the enterprises implemented the contracts they became relatively independent commodity producers and operators, and had the function of direct distribution. This meant that the adjustment of distribution within enterprises under a simulated commodity economy mechanism became a possibility. Enterprises which have implemented contracted operations have the right to determine appropriate wage forms and distribution modes, and the right to increase the wages of staff and workers with funds obtained through legitimate channels. As long as these methods are beneficial to motivating staff and workers' enthusiasm and to developing production, the enterprises can choose which form to adopt. The diverse internal wage forms which have appeared in Xinzhou enterprises are all products of enterprises' direct distribution function.

### **III. Several Thoughts on the Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism**

Although the readjustment of distribution within enterprises under a simulated commodity economy mechanism which is being implemented in Xinzhou Prefecture is but an exploration which requires further testing through practice and further development and improvement, its creative characteristic clearly has its own vigor.

1. The "simulation" form combines labor distribution and exchange at equal value, meaning that it has the characteristic of implementing distribution according to labor under socialist commodity economy conditions. The labor of individual workers must be assessed not just in terms of labor time, but more importantly in terms of the socially effective labor provided by the worker. This effective labor must be indirectly proven through exchange, drawing support from value categories. Regardless of the amount of individual concrete labor provided by a worker, only that part which is consumed in the product and which through internal exchange becomes the enterprise's average necessary labor will be a basis for the enterprise's distribution. Thus, not only will the enterprise's production operation situation and the size of the social contribution be judged, but the labor actually contributed by staff members and workers will also be determined. In this way there will be an objective basis for distribution according to labor, and it will be possible to effectively guard against egalitarianism concealed by distribution according to labor time.

2. The "simulation" form combines distribution and management and effectively improves the level of enterprises' internal management. It draws the law of value and market mechanism into the enterprise and establishes at the management levels within the enterprise, an automatically adjusting and benign mechanism which rewards the diligent and penalizes the lazy, and which rewards the superior and penalizes the inferior. Thus from the distribution angle, management has been raised to a new level. First, workers' labor and remuneration has been tightly linked and the individual labor of workers and the overall labor of the enterprise are organically combined in terms of material interests. Everyone is a laborer and also a manager. One manages oneself and the enterprise managers then do not have to worry about how best to manage the workers. Second, the workshops and groups within the enterprise have, through the combining of responsibilities, rights, and interests become vital organisms, truly taking responsibility, adopting flexible forms to achieve the best arrangement of laborers and the means of production, and reducing costs and improving economic efficiency. The weaving workshops of the Xinzhou Prefecture Textile Mill have a 10 to 15 percent reserve staff. Previously, this was never enough, because the machines did not have enough people to run them and it was necessary to organize some people to work overtime. Now, the workshops and the work group heads make painstaking arrangements, staff and workers now do their errands after work, and those with minor illnesses do not take time off. There is usually a surplus of reserve workers and this guarantees full production by the machines. Third, as value categories have been drawn into the enterprises, everybody stresses accounting and the calculation of costs, and the quality of management has swiftly improved. The head of one weaving workshop in the prefectural textile mill is an old worker with a primary school education. Before, he did not understand what costs and profits were. He only knew how to lead the workers in doing what the factory department had arranged. After reducing of the size of accounting units, and the implementation of the adjustment of distribution within enterprises under a simulated commodity economy mechanism, because the workshop's costs went up, 20 percent was deducted from the monthly wages of the staff and workers. Thus, the head knew he could not continue to do things like he had done in the past and he registered to participate in a middle-level cadre management training course run by the factory department. He also managed to find time to do some study in the finance section.) Now he is just like a little entrepreneur. Fourth, because everyone at every level has a sense of responsibility, the factory managers have been freed from many of the worries of work. Thus, it is possible for them to centralize their energy in enterprise decision-making.

3. The "simulation" form unifies enterprise targets and the targets of staff and workers and creates a new situation where workers feel "if the factory is prosperous, I am proud, whereas if the factory is weak, I am

ashamed." It has established a distribution mechanism which coordinates individual and enterprise interests. Enterprise development goals contain benefit targets for individual staff and workers. Individual and enterprise interests are melded together and the rise or fall of the enterprise has an immediate effect on the benefits of the staff and workers. Interests are shared and risks are borne together. This motivates the enthusiasm of the staff and workers and increases enterprises' cohesiveness and centripetal force. In the past, when the Dingxiang Phosphate Fertilizer Factory experienced power cuts, the staff were not worried and some even rejoiced at the excuse for a rest. Now, when there is a power cut, the workers rush to find the factory manager to demand power. Some even run to the electricity office to make representations, and they do everything possible to guarantee normal production.

4. Under the "simulation" mechanism, the specific remuneration forms are numerous and diverse. Some use one form as the major system and supplement it with another, and some use several overlapping forms which complement each other. However, all have their appropriate aspects and their limitations. This "simulation" is only an experiment in distribution forms within state-owned enterprises. Apart from this form, there may be more and better forms awaiting our exploration. This accords with the diverse nature of the commodity economy. However, regardless of what form, it is suitable if it is of benefit in motivating the enthusiasm of staff and workers and in developing production.

## PROVINCIAL

**Shanghai Enterprise Management Investigated**  
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[Article by Tao Youzhi (7118 0645 0037), Gu Gunwei (7357 1317 0351) and Wang Jie (3769 2212) of the Economic Research Institute of the Shanghai Social Sciences Academy, written in February 1988: "An Investigation of the Responsibility, Power, and Interest of Managers of State-owned Enterprises in Shanghai"]

[Text] A survey of 322 enterprises in Shanghai over the last half year has shown that the phenomenon of the dislocation of responsibility, power, and interest in enterprises under the system of ownership by the whole people still universally exists.

### **I. Current Condition of the Responsibility, Power, and Interest of Managers of Enterprises Owed by the Whole People in Shanghai**

#### **1. Manager's Responsibilities.**

In an enterprise under the traditional system, its plan depended on forwarding by the state, its capital depended on the state's appropriation, its raw materials depend on

state allocation, and its products depended on contracted sales by the state, so that outside of organizing production, no other responsibilities remained for the enterprise manager. The situation now is different. The enterprise manager bears at least five big responsibilities: First, the responsibility of organizing production and circulation. To follow the market's or state's demands and according to the time schedule and qualitative and quantitative requirements to produce or organize definite products is the first and foremost responsibility of the manager of the enterprise. The second is the responsibility of ensuring tax payment and delivery of profits. The enterprise is responsible for payment according to rules of taxes and delivery of profits to the upper level. Under the traditional system, it was flexible kind of target. How much of the target the enterprise could accomplish was irrelevant and even though the target had not been accomplished well it would not be subjected to any punishment. It is different now. Regardless of the type of responsibility system, the tax and profit targets already fixed must be ensured and protected otherwise the enterprise or the manager will be liable to punishment. After reform of the enterprise leadership structure, the responsibilities taken up by the plant head have become clearer and more definite than before. The third is the responsibility of assuring and protecting operation and production safety. Protecting properties of the state and assuring the workers' safety in production have not only been clearly specified in many legal statutes and rules and regulations but there have also been cases of the offenders being prosecuted and punished for the non-observance of these rules. Hence, in the production and operation activities, fire disasters, industrial injuries and deaths have become matters of most concern to the plant heads. The fourth is improving the standard of living of the staff members and workers. In localities enforcing the system of the linking of the gross amount of salaries and wages with the enterprise's benefits, increasing the salaries and wages of the staff will gradually become the duty of the manager. As for the granting of bonuses, at present the manager has generally grasped control. This being the case, it is apparent that the improvement of the standard of living of the staff members and workers and to what extent the improvement is made are the concern and responsibility of the plant head (manager). The fifth is bearing social responsibilities. Planting trees in the cities, building and repairing roads, operating orphanages and so forth were originally affairs of society. Now they are the enterprise's concern. Looking for the enterprises is in reality looking for the plant head.

In comparison with the traditional system, the responsibilities of the enterprise manager have greatly increased. But seen from the demands of autonomous operation and being solely responsible for one's own profits and losses, this is only a beginning. As for the principal responsibilities of an enterprise manager, such as responsibility for technological progress and for value-increment of the enterprises' assets, they have not been

actuated yet. Regarding these two kinds of responsibilities, aside from those enterprises which enforce the system of comprehensive contracted management responsibility having them clearly specified, most other enterprises have not made any definite demand of this kind on the managers. In particular, with regard to an enterprise's losses and bankruptcy at present not one enterprise's manager has shouldered the full responsibilities.

## 2. Manager's power.

Compared with the past, the power of enterprise managers has increased greatly, but in respect of the demand

for invigorating the enterprise, it is still not sufficient or large enough. According to an analysis made on a questionnaire survey on 322 enterprises, arranged according to the order of the highest ratio downward, the position is as follows: Recognized as possessed by all, the highest is the power of directing production, namely, 66.2 percent; and the second is the power of sales of the products, 44.5 percent; recognized as possessed by only a part, the highest is financial power, 77.1 percent, and the next is power to appoint or dismiss cadres, 70.2 percent; and recognized as not possessed at all, the highest is the power to dismiss workers, 50.8 percent; and the next is power of fixing the prices of products, 29.4 percent. The following table is illustrative:

**Table Showing Condition of Ownership of Powers by Enterprise Managers From Results of Survey of 322 Enterprises**

Item	Possessed in full		Possessed in Part		Not Possessed	
	No. of Replies	Percent	No. of Replies	Percent	No. of Replies	Percent
Planning power	67	21.9	198	64.6	41	13.4
Production directing power	202	6.2	100	3.1	1	
Personnel power:						
Cadres' appointment & dismissal	53	17.3	215	70.2	38	12.4
Workers' dismissal	36	12.3	114	37.7	155	50.8
Financial power	37	11.9	239	77.1	34	11.0
Fixing prices of products	34	11.0	151	57.6	77	29.4
Sales of products	114	44.5	127	49.6	15	5.7

Note: Because the replies to the questionnaires often skip or miss some of the items, the total number of replies does not necessarily tally with the total of 322 questionnaire forms issued.

## 3. The Manager's Interest.

According to a survey made, in 1986, regarding the gross income including the four categories of salaries, bonus, subsidies and others the gross income of managers is 2,022 yuan on the average while the staff members and workers average about 1,595 yuan, that is, the average pay of the managers is 26.8 percent higher than the staff members and workers. Of the gross income, in the case of the annual salary income, the managers averaged an income of 1,400 yuan while that of the staff members and workers, 1,011 yuan, that is, the former is higher than the latter by 38.4 percent. As for the annual income from bonuses, the managers received on the average 527 yuan and the staff members and workers, an average of 458 yuan, that is, the managers received 23.8 percent more than the staff members and workers. On the other hand, in the 1950's, the disparity between the manager's income and that of the staff members and workers was around 100 percent.

**Comparison of Manager's Income and Income of Staff Members and Workers (survey made in October)**

	lower than staff	same	higher by 10 %	higher by 10-20%	higher by 20-30 %	higher by 30-40 %	higher by 40-50 %	higher by 50-100%	higher by 100-200%	higher by 200-300%
Cases	21	3	32	52	54	44	36	36	0	1
Percent	7.5	1.1	11.5	18.6	19.3	15.8	12.9	12.9	0	0.36

From the above table, it can be seen that at present the interest obtained by the managers differs little from that of staff members and workers.

58.8 percent, 37.9 percent and 3.3 percent. Obviously, the number showing a decreasing disparity was larger than that showing an increase in disparity.

Comparing 1986 with 1983, a tendency has developed of a decreasing disparity between the income of the managers and that of the staff members and workers. According to a survey made of 240 managers, 141 showed a decreasing disparity between their income and that of the staff members, 91 showed an increasing disparity while 8 were on 1 par, the respective percentages being

At present this state of affairs of the enterprise manager's responsibility, power, and interest, if measured against the demands of invigorating the enterprises, is obviously unequal to the task. There is also a lack of coordination seen from the relations of responsibility, power, and interest. People have called it: "big responsibility, little power, and small benefits." Wherein do the causes lie?

## II. Causes of Dislocation of Responsibility, Power and Interest of Enterprise Managers

1. Seen from the responsibility of the enterprise managers, principally there are the following four causes:

First is that the plant head has not yet become the true manager. The powers needed in management such as policy-making in operations, direction of development of enterprise, production planning, capital construction investment and so forth are being grasped in varying degrees by the departments in charge at various levels. Plant heads have universally reflected: "responsibility and power are opposed to each other; whatever power you have that much responsibility you take. At present, since we have now only partial power then naturally we take only partial responsibility."

The second is that the plant head is still not in the central position of the enterprise. According to the survey, 193 replies admitted that they had only part of the power, 54 replies claimed that they were still not the enterprise's decision-makers while 27 replies frankly admitted that they had no power at all. These three added up to a total of 274 replies, making up 85 percent of the replies to the survey. Under such conditions, we can imagine to what extent the plant head can carry out his responsibility.

The third is that the plant head has still not rectified or turned around the short-term nature of the enterprise's behavior. Principally there are two causes for an enterprise's slow progress in technology and its assets lacking the ability to grow: 1) The state's one-sided assessment of the enterprise's output value and profits leads to the manager's being anxious for quick results and 2) The inflexible nature of the manager's term of office stimulates him generally to act on a short-term basis.

The fourth is that the plant head does not yet possess a definite amount of funds against risks either in his individual capacity or through the enterprise and it is easy for him to be solely responsible for gains but not for losses. Speaking for the plant head individually, dependence on his labor income obviously makes it difficult for him to be solely responsible for the profits and losses whereas so far as the enterprise is concerned, lacking its own funds to stand the risks of losses, also naturally makes it difficult for it to be solely responsible for the profits and losses.

2. Seen from the power of the enterprise manager, there are mainly five causes:

First, the two powers have not yet been fully separated. The power owned by the enterprise manager takes the managing power as the nucleus. At present, separation of the ownership power and the management power is still only making a start, generally speaking. This is the basic reason why the manager cannot own all the power he should own.

Second, there is a divergence in understanding. In enforcing separation of the powers, does it imply strengthening the enterprise's managing power or strengthening the properties' ownership power? People's opinions are still not unanimous in this regard. If we start from the viewpoint of strengthening the properties' ownership power, this necessarily makes the relevant department unwilling to delegate the power, afraid to delegate the power or, even after the power has been delegated, to at once take it back once any problem has appeared. For example, among the 10 categories of power which the State Council has specified to be delegated to the lower levels, the two key ones are financial power and personnel power. According to a questionnaire, enterprise managers having financial power are only 11.9 percent and those having personnel power, only around 15 percent. Again, regarding planning power, judging from the State Council's regulations, the planning power for a large quantity of light textile products has been delegated to the lower levels. Unfortunately, according to claims made by the enterprises, the planning power on products with stagnant sales has been delegated to the enterprises but that on commodities which can sell easily is either centralized in the cities or in the departments in charge. The more active the sales of the commodities, the greater the intensity of this power being centralized.

Third, serious force of habit. Certain leaders have consciously or unconsciously become fond of, or accustomed to, using a set of old tactics which cause the enterprise managers to be devoid of power, or to lose the power after getting it. Certain departments in charge, when meeting with certain new matters or problems unhesitatingly adopt administrative measures and ask the enterprises to follow their command. For example, when they wish to strengthen enterprise management, they order the enterprises to set up a special "enterprise management office"; or if stronger control of the quality of the products is desired, they ask the enterprises to set up a "quality control office"; or if they aim at taking strong actions against law-violations in the economic realm, they instruct the enterprises to set up special units handling such tasks, and so on. Enterprise failing to comply with their wishes face the possibility of losing points when assessment of the enterprises' performance is made. Likewise in the appointment or dismissal of cadres, although in name the plant head has the power to organize his staff, in reality interference from above is a frequent occurrence.

Fourth, lack of legal protection. True, the plant head is representative of the enterprise's legal entity. But in the survey it is generally found that the plant heads themselves lack legal protection with the result that the plant heads dare not use their power and cannot use their power well. Take for example the power to dismiss a staff member. Under present conditions, many plant heads dare not use it. The head of a textile plant said: "At present, even in the case of deducting a worker's bonus, let alone dismissing workers a plant head is running a

great risk." Furthermore, take the problem of the random and frequent levies and exactions imposed on the enterprises. The State Council has said that the enterprises have the right to reject them. But many plant heads have said that levies and exactions come from two sources, both of which they find it difficult to resist. One source was from the influential which the enterprises could not disregard. Another was the localities which they could not afford to ignore. Repairing roads, erecting electric wire posts, laying water pipes, setting up orphanages, and so on—once the requisitions are on hand, the enterprises must oblige.

Fifth, the CPC Party committee has not yet returned or delegated the power. At present, in Shanghai, the plant head responsibility system has not yet been carried out to the full. In those enterprises where it has not yet been enforced, the plant head's power is of course rather limited. In enterprises wherein pilot projects for the plant head responsibility system are in effect, it is still not definite whether or not the power has been returned to the plant head. For example, matters such as transfer of a portion of the personnel, decision-making on business policies, and so on, must still be discussed by the party committee and in reality the party committee makes the final decision and the nod from the committee's secretary is necessary.

3. Seen from the interest of the enterprise manager, there are mainly three causes.

1. For a long time the system of grading salaries and wages according to duties and functions has existed only in name but disappeared in fact. Since liberation in our country, regarding the remuneration of enterprise managers, the system of grading salaries and wages according to duties and functions has been enforced, based on the size and importance of the enterprise in the national income. Those with higher responsibilities, doing much work and having been in service for a long time are usually placed in the higher grades and are accorded relatively higher salaries or wages. Conversely the others are placed in lower ranks and receive lower salaries or wages. Since the 1960's, this grading system has existed in name only but has actually vanished. Many enterprise managers had their duties increased but not their remuneration.

2. Readjustment of remuneration has customarily followed the practice of the higher salaries having a ceiling or top limit while the lower salaries and wages are duly compensated. Up to 1985, in readjusting the pay system in our country this method has been consistently followed, that is, those salaries and wages lower than a fixed amount could be increased but those higher than a stated amount would not receive the same benefit. This literally made many enterprise managers lose the opportunity of increasing their remuneration. This practice of egalitarianism in the salary and wage system has greatly impeded the appropriate widening of the gap between the income of the enterprise manager and that of the rank-and-file staff member or worker.

3. Recognition of only the form of distribution according to work. Distribution according to work is the main form of distribution of individual income during the socialist period but in the past our country treated it as the only form and as a result the enterprise manager could not have any other income. In reality, in accordance with the demands of a commodity economy, the manager bears the burden of rather large risks related to the enterprise and, aside from his income according to work, should receive a definite amount of income for bearing the risks.

Aside from the above-mentioned causes, there are still other special causes for the low income of the enterprise managers in Shanghai. For example, in such localities as Guangzhou and Foshan, any newly appointed plant head, as soon as he assumes his post, and regardless of his past pay scale, will duly receive the pay he should get, that is, the lowest grade in the pay scale of his position. This is not so in Shanghai, where he can get an increase of only two grades. Moreover, in the granting of bonuses, the annual income of an enterprise head in Shanghai can be only 23.8 percent more than that of the staff members and workers whereas in Guangzhou and Foshan his income can be 50 to 100 percent higher.

### III. Countermeasure of Combining the Enterprise Manager's Responsibility, Power, and Interest

How to bring about the organic combination of the enterprise manager's responsibility, power, and interest so that they can propel each other forward is a problem that needs to be continuously probed in the actual practice of the reform. We can only present certain crude views of our own on the basis of an initial survey we made.

1. Distinguishing different responsibilities, powers, and interests according to the extent of disparity between the separation of the two powers.

How to combine responsibility, power, and interest must be based on the condition of the separation of the enterprise's ownership power and management power, making a separate examination and giving it different treatment. It is not possible to cover it with one set standard.

Seen from the current conditions, separation of the ownership power and management power takes three different forms. One is the contracted management responsibility system; the second is the assets management responsibility system and the third is the rental and leasing management responsibility system. In these three forms, the extent of the separation of the two powers is not the same. In the case of the rental and leasing management responsibility system, the extent of separation is the highest and its responsibility, power, and interest are also different from the other two.

In the combination of the enterprise manager's responsibility, power, and interest, responsibility must be fixed by the condition of the separation of the two powers; a fixed responsibility is provided with corresponding power and interest is accorded on the basis of the results of carrying out the responsibility. Combination of responsibility, power, and interest not only differs with the separation of the two powers but is also a process of development. In the separation of the two powers, in enterprises of the same pattern, under different internal and external environments, the responsibility, power, and interest may pose different demands or conditions. For example, in the case of the contracted management responsibility system, if unitary contracting is developed into comprehensive contracting and there occur changes in both the internal and external conditions, then the responsibility, power, and interest naturally will need to incur corresponding changes.

The different extent of the separation of the two powers calls for different demands for responsibility, power, and interest. But due to the several forms of separation at present being still only a start we are still unable to suggest the concrete standards for the responsibility, power, and interest except to suggest a guiding thought for a sort of analysis of the problem.

In order that the enterprise manager may achieve the combination of responsibility, power, and interest, another important problem which is related to the separation of the two powers is the enforcement of the objective of separation of the ownership power and the management power. According to the guideline of the ownership power and the management power. According to the guideline of the CPC Central Committee, this is for the sake of augmenting the management power of the enterprise and not the strengthening of the ownership power of the properties. If there is an all-round understanding of this problem from all sides, then the combination of responsibility, power, and interest will have a common ideological basis.

2. Improvement in the enterprise's economic benefits should be taken as the major criterion in assessing whether or not the enterprise manager has performed his duties to the utmost.

An enterprise manager's principal responsibility is to improve the enterprise's economic benefits. The economic benefits mentioned here are definitely not those quickly earned and of short duration. Rather, we must demand macroeconomic and microeconomic unification and long-term and short-term unification.

First, evaluation of the enterprise's benefits must manifest the principle of encouraging the advanced and pressing forward those who are behind. Growth of the enterprise's benefits cannot be measured vertically or

compared with one's own self but must be in comparison laterally with the same industries or trades and must be guided by benefit targets which are crisscrossed vertically and laterally.

Second, in assessing the enterprise's benefits we cannot simply look at the taxation and profit delivery targets but must take into consideration the enterprise's production benefits and distribution benefits. Production benefits may be assessed principally on the basis of the profit rate on capital supplemented by the net output value rate after production cost. As for assessing the distribution benefits, the tax-profit payment rate per each 100 yuan of net output value and the amount of salaries and wages per each 100 yuan of net output value may be taken as the criteria to examine whether or not the distribution of benefits between the state, the enterprise, and the individual staff member and worker has been rational.

Third, in assessing the enterprise's benefits it is also necessary to examine its stamina. This includes the opening up of new products, the speed and the level reached in reserves, technical transformation, coordination between value-increment in assets and artwork, improvement of the technical quality of the staff members and workers and so forth. Regarding the opening up of new products and technical transformation there must be a long-term planning and year-to-year realization of the targets by stages. There must be growth in the enterprises' benefits as well as improvement in social benefits.

3. Using the management power as the nucleus to perfect the power structure of the enterprise manager.

The enterprise's management power should include the powers of using, holding, and disposing of the properties. The speedy completion of the transfer of the government's management functions is the precondition for perfecting the power structure of the enterprise manager. It is necessary to divide the existing economic management departments into categories, make the government's specialized departments in charge transfer their comprehensive economic management functions to the comprehensive departments, return and restore to the enterprises the production management functions and transfer social management and service functions to the districts and townships. We should also readjust the government's management structures, using the industrial and communications systems as the breakthrough point. We must speedily push and perfect the plant head responsibility system. For the managers to dare to use their power and become skilled in using their power it is extremely important to speedily perfect the relevant legislations and statutes. Only when statutes have been formulated can the state obtain legal protection for its possession of the properties ownership power of the enterprises and for the enterprises to exercise the power of holding and managing the state's properties.

4. Following the road of the contracted management responsibility system, turning the granting of bonuses into the main channel for increasing the manager's interests.

The enterprise manager's interests must be in conformity with the responsibilities he holds, the risks incurred and his input of labor. Regarding the proposition of giving the manager more benefits, we believe that we should not take the road of giving him several grades of rises in standard salary. 1) Standard salaries have the special feature of "early waterlogging to ensure harvest" and are not sufficient to make the managers feel a sort of force of pressure; 2) Promotion in rank has a limit and salary grades must correspond with technical and business abilities. So far as the manager is concerned, he is still subject to a ceiling of a top grade and it is difficult to give the manager adequate and corresponding compensation for any truly enormous contribution he has made; 3) Standard salaries lack a linking and floating mechanism tied to the business successes of the manager; 4) Standard salaries have a long-term role in the distribution channel and the manager, even after he has left office, can still receive them, or part of them, even without having made any more contributions. These problems of standard salaries are not exactly homologous with responsibility, power, and interest.

In our opinion the bonus offers a better main channel for the manager to obtain interests. 1) The source of bonuses comes from the enterprise's accomplishments and effects. When there are effects there are bonuses. The size of the amount of bonus of an enterprise reflects to a definite degree the business accomplishments of the manager; 2) The bonus being an independent distribution channel, in essence it requires assessment before being granted and has floating, rising, and lowering aspects; 3) disparities in bonuses are not subjected to the limitations of fixed grades and the disparities can be widened in accordance with the size of the manager's accomplishments, being thus mobile and flexible.

Granting of bonuses to managers may be carried out in two ways: One is that at ordinary times there is no granting of bonuses but at year-end and after the assessment work it is granted in one lump sum; the other is that at ordinary times he is granted a production bonus of a regular nature. The exact amount of the bonus will be determined after assessment at year-end at which time any deficit will be made up while any surplus will be reclaimed. In our opinion, the first method is better, because it exerts a relatively heavier psychological pressure on the manager and is beneficial to augmenting the manager's sense of managing responsibility.

Appropriately widening the disparity between the manager's bonus and that of the rank-and-file staff member and worker, aside from ensuring that the enterprise will create relatively higher economic benefits, needs to be supplemented by two conditions one is that the disparities between the staff members and workers should also

be appropriately widened; and the other is that widening the disparities should take place on the foundation of increasing the income of the staff members and workers. Only by so doing can we make the staff members and workers psychologically develop a receptive capability and at the same time economically have a suitable foundation; otherwise, there may be unexpected developments.

## FINANCE, BANKING

### Tax Policy for Private Enterprise

40060258 Beijing JINGJI CANKAO in Chinese  
1 Apr 88 p 4

[Article by Yi Yunhe [2496 6663 0735], General Tax Bureau, Ministry of Finance: "An Appropriate Tax Policy Is Required for This Stage of Development of the Private Economy"]

[Text] The private economy has developed rapidly since the 3d Plenum of the 11th Central Committee. Survey statistics compiled by relevant departments show that there are now more than 220,000 private enterprises employing 3.6-plus million people, which is an indication of the role this sector has played in developing social productive forces.

Naturally, a number of problems have cropped up during the course of the development of this sector. First, there has been some blindness, speculative behavior and instability in this development. Second, the state has yet to promulgate clear regulations governing this sector, so private investors are apprehensive, and some have tried to pass themselves off as collective enterprises and to evade necessary state supervision and control. Third, there have been imbalances between accumulation and consumption within this sector. Fourth, some people have engaged in illegal business activities, fraudulently reported turnover and profit levels, falsified records, and stolen or evaded state taxes. Fifth, income disparity between managers and workers has widened, in some cases to 135:1, and some enterprises do not provide their workers with even the most rudimentary of safety equipment, have not installed anti-pollution devices and thus pollute the environment and fail to protect workers.

To guide private enterprises, we must supervise and regulate them through taxation, credit and a variety of other economic measures as well as necessary administrative measures. Since our goal in encouraging the growth of the private economy is to promote development of social productive forces, we must draw up appropriate tax policies and laws, which, in view of the problems existing in this economy, should include the following basic principles.

1. Fair tax burdens promote competition. Limited by special conditions that obtained when we shifted from profit to tax collection, our current tax policy provides for different rates for different systems of ownership.

And although we have proclaimed allegiance to the principle of "fair taxation and reasonable tax burdens," "reasonable burdens" has been interpreted to mean "based on ability to pay," which amounts to "whipping the fast ox." Thus we have failed to effect truly fair tax burdens. Therefore, when we draw up new tax policies and laws for the private economy, we must not maintain the old approach but rather apply the same policies and tax rates to all systems of ownership so as to promote competition.

2. Encourage expanded reproduction. Our goal in promoting the private economy is to stimulate growth in production, not in individual consumption. Thus our new tax policies must serve this end. Only then will the private economy truly function as a "necessary and beneficial complement to the public sector."

3. Labor and nonlabor income should be differentiated. Under socialism, entrepreneurs serve both as investors and managers and as workers, because, to enable their firms to grow amidst competition, they must fully apply their special technical or managerial skills to the management of production. This complicated work deserves better remuneration, and we should permit and encourage this practice. However, entrepreneurs may also receive profits from their investments, which earnings constitute nonlabor income, should be distinguished from income earned through labor and be subject to certain restrictions, which we should incorporate into the new policies.

On the basis of these principles, we can sketch out the following rough framework for the proposed new tax policies and laws for the private economy.

We should make tax rates for this sector the same as those for the state and collective sectors. The nominal income tax rate for state enterprises is 55 percent, and large and medium enterprises must pay an additional regulatory tax. However, the latter tax was incorporated into the contract responsibility system, which "incorporated rigid base figures to ensure that funds were remitted upward and let units retain most of their supraquota earnings and make up shortfalls themselves," when contracts were applied to state enterprises, so income taxes on these enterprises are in fact no longer truly based on percentage of income. Localities that have conducted experiments in reducing income tax rates have adopted a progressive system whose highest rate is 35 percent. The 8-tiered 55 percent progressive system is still employed for collective enterprises, but now that the state sector has adopted the contract responsibility system, the next step required is a reduction in the current rates for collective enterprises and an appropriate revision of relevant policies and regulations. Thus if we are to make the tax rates for private enterprises the same as those for state and collective firms, we cannot use the current rates for those sectors, for these are no longer meaningful, but rather must take into account the

reforms in these taxes. Thus in setting income tax rates for private enterprises, we should choose something in the neighborhood of 30-40 percent.

We must also guide and regulate the after-tax profits of private enterprises. If a tax rate of 30-40 percent is adopted, as suggested above, these firms will have light tax burdens and enjoy more profits, which change will facilitate development of production. To encourage enterprises to use their after-tax profits to expand reproduction, we should, on the one hand, mandate that an appropriate share of these profits be so used and, on the other, levy regulatory taxes on the profits that are used for personal consumption, so as to limit such use.

We can appropriately relax restrictions on pre-tax wage differentials and use regulatory taxes instead of enterprise bonus taxes for people with high incomes so as to limit those incomes.

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### Stages, Problems in Financial Structural Reform Discussed

40060257 Beijing JINGJI RIBAO in Chinese  
19 Mar 88 p 2

[Article by Zhang Xiao [1728 5135], President of the Industrial and Commercial Bank of China: Financial Structural Reform Cannot Be Accomplished in One Step]

[Text] In the last few years, the Industrial and Commercial Bank of China has achieved clear success in enterprise reform. But it still faces many problems. The following are the main problems:

1.) The major prospective borrowers of the Industrial and Commercial Bank of China are state-operated enterprises. According to investigation, circulating funds of state-run industries are only 25 percent of total circulating funds, those of commercial enterprises only about 10 percent. On top of innumerable enterprise debts is added care of employees during childbirth, old age and illness, burial arrangements, injury, disability, training, retirement benefits, subsidies for financial difficulty, and employee housing, etc.—all of which must be assumed by the enterprise. Under these circumstances, a few of these enterprises have been unable to compete, hence reduction in production and even shut downs have resulted, and this has caused a series of problems such as workers' wages, benefits, etc. that is impossible to solve. Faced with this kind of situation, the restraining power of bank credit is not very useful. This is an important source of the actual supply system of loans made on banks' circulating funds.

2.) Although the Industrial and Commercial Bank is said to be a financial enterprise, it also has a macro-economic control function. For example, according to the state industrial policy and its macro-economic development



needs, the Industrial and Commercial Bank grants more than 10 types of preferential interest rate loans, which creates a loss in savings and loans. Obviously it is a losing business and must be taken care of. Therefore, in the enterprise reform of the specialized banks, how can the relationship between the bank's benefit and macro-economic benefit be handled? Integration of the two still awaits further practical study.

3.) All of the governmental levels in China supervise the economy, banks are the lever for macro-economic control. Banks play a key function in the many macro-economic control measures. There is a lot of influence and intervention from the government in the running of banks, so banks cannot totally exercise their own autonomous operating power according to the mechanisms of a market economy. In the short term this will be hard to change.

4.) The mechanism for our supervising credit management is not compatible with the mechanism of enterprise management and not suitable to the needs of economic structural reform. After an enterprise has made a contract, its relationship with the government changes. From before when "everyone ate from the same big pot," it has changed to just giving the government a fixed amount; guarantee a fixed amount be turned over; and what is made beyond that amount can be kept by the enterprise. But banks' credit mechanisms are basically still the old system, they lack the ability to take risks on their own.

Our nation's financial structural reform can only be achieved in stages. The Industrial and Commercial Bank's enterprise reform is not an isolated matter. Reform of the banks must complement the mechanisms of enterprise management and the economic and political system, and advance step by step. At the same time, we cannot waste time, but we must actively create the conditions for this.

In order to achieve the target of reform for the Industrial and Commercial Bank, we are just now beginning to study and formulate the Industrial and Commercial Banks' interim reform program. The interim reform program will, for the most part, be implemented in two steps. The first phase is from now until 1990. In these three years there are two main tasks. One is to improve the internal operating mechanisms of the city banks. This mainly includes establishing and perfecting a mechanism for the movement of money, establishing a scientific business accounting system for financial affairs, implementing a bank president responsibility system, establishing targets for the term of bank presidents and many levels of economic responsibility systems, establishing an equitable internal allotment system in order to fully arouse the enthusiasm of the grassroots level management. The second task involves the head bank and the provincial branch banks, making initial changes in the function of these two levels. By means of the complete set of reforms in the above-mentioned two tasks,

the vitality of the city banks will be strengthened, and step by step we will achieve the transformation from the old system to a new system of operating.

The second phase of the reform is from 1990 to 1995. The major task in these 5 years of reform is to completely integrate the further development of our nation's economic structure and political structure. We will put in order the relationship of the Industrial and Commercial Bank with other institutions. On the basis of improving operations mechanisms in the city banks, we will further improve or put in order the relationships among the head bank, the provincial branch banks, and the city banks. This is in order to, under the unified leadership of the head bank, operate at separate levels, do business accounting at all levels, both having a unified plan, a reciprocal relationship, as well as enabling banks at each level to become financial enterprises which are independently managed, assuming sole responsibility for their own profits or losses, taking risks on their own, and developing themselves.

In order to achieve this goal, there is still a need for the following outside conditions:

The first is for our nation's state-run enterprises to actually become relatively independent commodity producers and commodity managers which independently manage and take sole responsibility for the own profits and losses. The state of affairs of enterprises "eating out of the bank's big pot" will be fundamentally reversed; the enterprises will operate according to the enterprise law.

Secondly our nation's political structural reform needs to make significant progress; the legal system must be sound, all levels of government will supervise banks according to the law, enabling banks to carry out their operating activities under their own independent initiative, according to the government's macro-economic control requirements and each of the government's financial policies.

The third is, on a fundamental level, to set up a series of social security systems to handle workers who are waiting for employment and reemployment; and allow the bankruptcy of enterprises to become a realistic possibility.

The fourth is for the government to further carry out reforms of the management of banks' financial affairs and work wages; to give banks even more vitality, allowing the Industrial and Commercial Bank to perfect its own dynamic system.

### **Objectives, Progress of Financial Structural Reform**

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No 2, 10 Mar 88 pp 17-22

[Article by Liu Hongru [0491 7703 0320]: "Progress of Financial Structural Reform in China"]

#### **[Excerpts]Synopsis:**

*Financial structural reform is focused on developing the financial market, operating the specialized banks more like enterprises, and establishing and perfecting an indirect financial macroeconomic control system. The formation of the financial market is the central link of reform, and enlivening the financial enterprises is the foundation. Thorough reform means dealing with many problems and issues seriously, and we must also consider reforms in other areas, such as enterprise operation, investments, foreign trade, goods and materials, and finance and taxation to make the reform process complete.*

#### **A Short Review**

Facts prove that the past 9 years of reform has been headed in the right direction, and that we are on the right track and have obtained clear results. Banks have assumed a new role in the national economy and have become the main channel for gathering and distributing funds. In terms of funds intended for expanding reproduction (including fixed and circulating funds,) excluding funds gathered by enterprises themselves, if total government appropriations and bank loans equals 100, then in 1978 76.6 percent of all financing was government appropriations, and 23.4 percent was bank loans. But by 1986 government appropriations had dropped to 31.6 percent, and bank loans accounted for 68.4 percent of the funding. Banking has become a vital macroeconomic control measure. Of course, although financial structural reform has taken an important step forward, it nevertheless was a tentative step and was not perfect. We must make further changes step by step.

#### **The Objectives of Financial Structural Reform**

Financial reform is an important part of economic reform, and must be coordinated with, and serve the needs of, the overall economic reform. The program and objectives of economic reform have been defined, and we have a clear idea of the basic goals of financial reform. In addition, the basic framework of a new financial system has emerged. The mainstay of this framework is:

—We should establish a multi-level financial control system which regulates the economy indirectly, exerts effective and flexible macroeconomic control to facilitate effective gathering and utilization of society's funds, balances total supply and demand, and maintains stability in the money supply in order to promote steady economic growth and a proper economic structure.

—We should set up a multi-channel, multi-format credit system based mainly on bank credits but which utilizes diverse financial tools to gather and distribute funds to promote their horizontal flow and circulation. We should take gradual steps to develop urban financial centers of different levels and different scales, and set up a financial market which best suits the conditions in this country.

—We should establish a multi-purpose and specialized socialist financial system headed by the central bank, a system dominated by banks but also accommodating and cooperating with insurance institutions and a multitude of other financial institutions. We need to consolidate the functions of the central bank, and operate other types of banks and financial institutions more like enterprises. This guarantees the smooth implementation of the country's financial policies, and encourages the financial enterprises to gather and utilize funds on their own initiative. It also integrates power, responsibilities, risks, and profits so that the financial enterprises can gain internal drive, vitality, and external pressure in a proper competitive environment.

—We should establish a financial management system based on modern scientific techniques. We have to improve the quality of the contingent of cadres and place people with financial management ability in senior positions. We need to utilize electronic computers and other modern technologies to offer, for the sake of economic development, a financial service which is scientifically managed and which provides good market information, convenient service, and good economic return.

#### **Problems and Issues in Further Financial Structural Reforms**

Despite major accomplishments of the financial structural reform of the past 9 years, and the objectives and direction of the next phase of reform being clear, more thorough reform entails many problems which must be solved, and many issues which require serious consideration.

#### **First, conflict between the old and the new systems creates problems in financial macroeconomic control.**

The problem is that previous administrative orders and rigid state plans and targets have weakened yet the central bank's new financial macroeconomic control system has still not been perfected, and control measures still lack dimension. Furthermore, because the microeconomic mechanisms are not suitable, enterprises lack autonomous restraining power, and the financial system's intrinsic problems have yet to be solved, under the circumstances, relinquishing control often leads to chaos, and a tight policy often means across the board control measures. In other words, control means total control, and decontrol means total decontrol. There is no flexibility in the structural regulation mechanism. In the

last quarter of 1984, the economy over-heated. Investment and consumption surged, and the money supply and loans were excessive. This was due partly to over-zealousness in carrying out the economic tasks, and also because of the blind pursuit of accelerated growth. The banks' failure to control their easy credit policy was partly to blame too. In 1985, a tight-money policy was implemented to control loans and the money supply. At that time, it was suggested that we adopt discriminatory measures to continue to support those construction projects and enterprises which were profitable and essential to the country. However, during implementation some projects and enterprises which were performing poorly had already been allocated funds, and loans could not be recalled. Some of them even continued to receive funds. As a result, those projects and enterprises which were getting good economic returns were not given preference or sufficient loan funds. This created the situation of across the board cutbacks. During the first half of 1986, because enterprises were experiencing production problems due to the tight credit policy of the previous year, credit control was eased, and a "differentiating and flexible" monetary policy was adopted. But, in fact, structural regulation still lacked versatility, and again total decontrol took over, and little was done to control the credit volume. This demonstrates that the question of how to control the overall economy and at the same time make structural adjustments and establish a financial control system which exerts control at the macroeconomic level and enlivens the economy at the microeconomic level is indeed a pressing problem.

**Two, the conflict between strictly controlling the total money supply and maintaining a certain rate of economic growth and full employment.**

At present, on the one hand, in order to facilitate smooth implementation of reform we need a good political and economic environment, and we must prevent the economy from over-heating, so that we can maintain equilibrium in supply and demand and stabilize prices. Therefore, we must strictly control the volume of cash and credit in order to keep the money supply under control. But, on the other hand, we have a huge population, and employment is a pressing issue. To keep everybody fed and employed, and especially in consideration of developments in the global political-economic situation and China's status and function in the world today, we need to develop at a faster pace, and maintain a certain rate of economic growth. But economic growth, to a large extent, depends on having a substantial amount of financial support. Since structural adjustments are not likely to achieve anticipated results, the fund supply-demand problem is exacerbated. Therefore, how to deal with the relationship between growth and stability and between reform and development are among the problems of financial reform.

**Three, the vertical allocation of funds is incompatible with lateral economic integration and the development of the market system.**

Development of lateral ties among enterprises and the gradual formation of the market system have eliminated rigid separatism and regional and departmental ownership boundaries. At the macroeconomic level, this situation calls for a horizontal flow of funds in a proper fund market in order to facilitate the proper allocation of key productive elements. Since 1979, China's one-bank system has been replaced by four large specialized banks, with offices throughout the nation, and loan funds have been allocated vertically. Furthermore, the scope of operation has been clearly divided among the banks, and loan funds have, to a large extent, been managed by administrative methods. As a result, the banks' vertical control of funds prevents their horizontal flow. For example, after the central bank adopted a tight credit policy, some specialized banks began to prohibit their branches from lending out short-term funds in the financial market.

**Four, funds are getting poor returns. Banks basically have not changed the way they fund enterprises.**

In the past, when banks were not offering overlapped services and did not have to compete with each other, an enterprise could only deposit money in one bank and borrow money from the same bank. Banks had to guarantee funds needed by enterprises; they took care of the fund supply. If a bank stopped lending money to an enterprise, its operation would be affected. It might even have to shut down. Banks did not have a system to assess risks, and did not conduct feasibility studies before lending money to enterprises. As a result, the economic return of some loans were very poor.

**Five, the financial enterprises lack internal drive and vitality.**

Chinese banks have always been operated like administrative organs. Each bank organization is enormous, has a huge staff, and there is no responsibility system among the different classes of banks or among the grass roots organizations to integrate power, responsibilities, and profit. The financial institutions have not integrated their interests with the interests of their staff and workers. On the one hand, grass roots financial enterprises are not independent. They lack the authority to make business decisions, make loans, float interest rates, appropriate after-tax retained profits, dismiss, reward, or penalize cadres, or modify the internal setup. On the other hand, because they treat power, responsibilities, risks, and profits as separate matters, these financial intermediaries cannot amass funds efficiently, nor allocate them to enterprises and projects with good economic returns, and it also results in poor service and inefficiency.

**Six, the present foreign exchange management does not meet the needs of the policies of opening up to the outside world and enlivening the domestic economy.**

Foreign exchange is still monopolized by the state and allocated by the government, and is not regulated by market mechanisms. Enterprises do not have independent control over the use of foreign exchange, and therefore the return on foreign exchange utilization is poor. Foreign exchange is managed by administrative measures and mandatory plans. Economic levers such as exchange rates and interest rates on foreign exchange loans cannot function effectively. The central bank has failed to make use of foreign exchange management as a tool to achieve the goals of its domestic monetary policy.

**Seven, financial structural reform has failed to complete the restructuring of the economic system.**

For instance, financial structural reform should complement reforms in the systems of planning and investment. Often, in the past, decisions on investment plans and construction projects were already set before making the financial arrangements. Since the banks were not autonomous, they could not control the loan volume nor the effective use of funds. As another example, if the general price level is rising, interest rates on bank deposits and bonds should be raised, and this increases the cost of investment. However, interest rates on banks loans are fixed, and enterprises cannot raise product prices, thus they become less able to afford the higher interest rates. Hence, financial structural reform must go hand in hand with reform of the pricing system. Furthermore, in the past, financial deficits were covered by overdrafts and loans from the central bank. This weakened the central bank's macroeconomic control. Instead, deficits should be paid for by issuing bonds.

**Objectives and Measures of the Present Phase of Financial Structural Reform**

The guiding policy of China's economic task in 1988 is to further stabilize prices and implement reforms more thoroughly. With this in mind, we can sum up the experience of various pilot projects and the existing problems, and also consider a complete set of reform measures pertaining to such matters as enterprise operation, investments, foreign trade, goods and materials, and finance and taxation. The main tasks and measures of this year's financial structural reforms include:

**1. Strengthen and perfect the central bank's macroeconomic control.** In order to control the total volume of money and credit, the loan structure should be adjusted to direct credits to areas which best serve the key points of the state's economic development decision. We should improve the loan process to get better economic returns and facilitate the adjustment of product mix and industrial structure. The People's Bank should limit currency issuance to the level approved by the State Council, abide by the Council's credit plans, and strictly control the volume of funds under the bank's own disposal. All loans extended by the People's Bank to the specialized banks should be converted to specific term loans, abolishing the method of allocating credit funds at

the beginning of each year according to plan. Loans must be repaid when due, and fines will be levied on overdue loans. Loans may be carried over to the next year within the duration of the loan period. In order to serve the needs of economic development, the People's Bank must allocate a part of the newly increased loan quota to the headquarters of the specialized banks and allocate the remaining amount to its own branches in the provinces, prefectures, and cities. We should reduce credit loans, but increase the use of rediscounting and collateral loans and rely more on short-term notes to gather funds. The People's Bank should amend the loan rate it charges specialized banks, and avoid erroneously reversing the rates for loans and deposits.

**2. Further develop and guide the financial market.** We should develop and perfect the inter-institution financial market, especially the inter-bank loan market which spans different classes of banks to enable the financial institutions to promptly adjust fund shortages and surpluses, enhance their self-sufficiency and solvency, and reduce the need to borrow funds from the central bank. We should set up a system which integrates the visible and invisible markets, emphasizing the invisible market. We must avoid duplications in the visible market to reduce cost and increase efficiency. Inter-bank loans should be limited to a 4-month term to prevent their being used to augment fixed asset loans. We should develop and perfect the bond market. Financial institutions anticipating fund shortages lasting 6 months or longer should issue bonds, attract more deposits, or use other methods to gather funds in society instead of relying on short-term inter-bank loans, so as not to disrupt the market. Enterprises are encouraged to gather funds in society by issuing intermediate- to long-term bonds as well as short-term bonds, as long as they are within society's financial means, and only with the approval of the People's Bank, so that banks no longer have a monopoly on funds. The People's Bank must follow through with its policy of structural adjustments and give priority to key projects and enterprises to issue bonds. The planning, financial, and enterprise management departments can use discounts, pledge requirements, and other methods to influence the mix of bonds to guarantee availability of funds to key construction projects. We should establish and perfect a secondary market for bonds (including treasury and other financial bonds) to facilitate normal operation of the bond market. We should establish and perfect the stock market, and give priority to key enterprises and enterprise syndicates to issue publicly-owned stocks. At the same time, we need a market to trade these publicly-owned stocks. We should also form corporations which permit individual stock ownership, as well as a market to trade these stocks, on a trial basis, in the SEZs and in other areas qualified to do so. We must vigorously promote the use of commercial papers and perfect the system of discounting and rediscounting commercial papers to avoid chain-reaction defaults. Discounted loans should be given concessionary rates. To perfect the financial market, we need to establish and perfect securities companies and

short-term securities companies (current asset companies), and credit rating firms which are authoritative and unaffiliated with other financial institutions. The People's Bank must regulate the financial market more closely to maintain order and promptly enact interim rules to regulate the short-term loan market, bonds, public notes, securities companies, commercial papers, and other related elements. Those who violate the rules or disrupt the market, will be fined, required to pay interest penalty, disqualified from market trading, or have their business license suspended. The financial market management organ of the People's Bank must be more conscientious about inspections and supervision and diligently enforce all laws and regulations pertaining to the financial market.

**3. Encourage the financial institutions to operate more like enterprises.** We should strengthen the operating mechanisms within the financial enterprises and establish and perfect different forms of responsibility systems and internal assessment norms to place authority, responsibilities, risks, profits, and growth objectives in the operating units, so that grass roots banks and offices gradually learn to restrain themselves, develop themselves, take responsibility for their loan policies, profits and losses, and their own future, and take steps to close up any loopholes in order to get better returns on invested capital. We should extend the various forms of business contracted-responsibility system. When assuming contracted responsibility, we should consider not just the economic gains, but also the social benefits. We need to change the way circulating funds are managed so that banks no longer guarantee their supply. Banks should deal with each enterprise on its own merits, and choose to fund only the best. We should set management goals, and take stock regularly to establish fund sources. We need to assign credit ratings to enterprises and vary the loan rate according to an enterprise's credit rating. Unprofitable enterprises and those with poor credit ratings will have to rely more on collateral and guaranteed loans. Enterprises which feign success but in fact are losing money and enterprises with more liabilities than assets should be denied further loans. We must also establish a bad-debt reserve.

**4. Enhance and perfect the management of foreign debts and foreign exchange, and strengthen the system of unified management of the state's foreign exchange reserve under the central bank.** We should perfect the management of the state's foreign exchange in the SEZs. The central bank should work out a statistical report system and management methods concerning the foreign exchange under its control. We should expand the scope of foreign exchange regulation and accelerate the horizontal flow of foreign funds. We need to coordinate reforms in the foreign trade system, set up and expand the foreign exchange regulation market, and decontrol prices. At the same time, we need to strengthen the unified management of foreign debts. Individual units should be prohibited from seeking foreign loans without permission from the central government. We need better

statistical supervision of the nation's foreign debts. We should enhance a system which ensures that the borrowing unit take responsibility for its own debts. Foreign loans obtained by local governments and enterprises themselves should be repaid out of their share of foreign exchange profit retention. We should conduct closer statistical supervision, make better forecasts of the profit payback in the joint-ventures and wholly foreign-owned enterprises, and maintain closer statistical supervision of the Chinese overseas assets.

**5. Develop a diversity of financial institutions.** Reform of the rural credit cooperatives should be in accordance with the spirit of the central government's documents, uphold their role as rural cooperative financial organizations, and give full play to the "three characteristics" of credit cooperatives to serve the rural economy better. The management of trust and investment corporations, finance companies, and banking firms should be overhauled. We should regulate the asset and liability ratio of these companies to prevent them from expanding the volume of fund utilization. The insurance system should be changed. Insurance companies must follow the steps of specialized banks and become more enterprise-like. We need to promote the systems of reinsurance and agencies to mobilize all positive factors. We can introduce new insurance categories and develop the rural insurance market. Regional and specialized insurance organizations may be set up with the approval of the People's Bank, and areas are encouraged to form life insurance organizations. We should establish many different kinds of financial institutions, but we must not be reckless and impatient for quick success. To prevent separatism from resurfacing and thus thwart financial control, banks should not become appendages of the local governments. There should not be banks which serve only certain trades, nor should there be privately owned banks. Enterprises should not be allowed to run banks which offer non-domestic services. To coordinate with the housing reform, some areas may seek permission to set up residential savings and loan banks. Other areas may set up real estate mortgage departments in the specialized banks to facilitate housing reform.

**6. Reform the interest rate system, and improve the improper interest rate structure.** When possible, we should gradually set up a floating interest rate system based on the central bank's loan rate and give play to interest rates as an economic lever which regulates fund supply and demand. But we must set strict upper and lower limits within which rates are allowed to float. Different economic regions may have a different interest rate level, but within the same economic region, the People's Bank must work with the various financial institutions to reach an understanding regarding interest rates to prevent some institutions from using interest rates to stir unfair competition. Manipulating interest rates covertly (gift-giving, for example) to interfere with market competition is strictly prohibited.

## TRANSPORTATION

### Shipbuilding Orders Received From Abroad

OW0306003688 Beijing XINHUA in English  
0933 GMT 2 Jun 88

[Text] Beijing, June 2 (XINHUA) — China has signed contracts with foreign firms to build 21 ships all ordered in the first five months of this year, an official from the China State Shipbuilding Corporation (CSSC) announced here today.

They include three 64,000-dwt sundry cargo ships, a 62,000-dwt oil tanker and a 52,000-dwt oil storage tanker.

The orders came mainly from the United States, Britain, Denmark, Chile, Japan and Hong Kong, the CSSC official said.

The ships, to be designed and built by China's Jiangnan, Hudong, Zhonghua, Guangzhou and Donghai shipyards, will use China-made engines and are expected to be completed by 1990, the official said.

### CAAC Director on Flight Safety Measures

OW0706015788 Beijing XINHUA in English  
0556 GMT 6 Jun 88

[Text] Beijing, June 6 (XINHUA) — The Civil Aviation Administration of China (CAAC) hopes passengers will feel safer when all outdated planes in the fleet have been replaced with newer models, CAAC's General Director Hu Yizhou said today.

"This is only part of what CAAC is doing to make flying safer," Hu said at China's ongoing National Conference on Transportation Safety.

According to Hu, CAAC plans to become more reliable, and accelerate construction on Sino-foreign aircraft repair centers now being built in Beijing and Guangzhou and on Shanghai's Electronics Repair Center.

With foreign funding, CAAC will set up some schools and centers to train aircraft repair technicians, Hu said, adding CAAC will adopt internationally-accepted repair standards.

CAAC is also trying to improve the fleet's communications, navigation, and meteorological equipment, Hu explained, and plans include 11 two-way air traffic control radar units, landing meters for 9 airports, and imported automatic observation systems to be installed at the Beijing and Shanghai airports.

"Pilots will be trained to fly new, modern aircraft," Hu said, "while CAAC will supervise in flight and airport safety to guarantee passenger safety above all."

CAAC will also cooperate with the country's security departments and local governments to fight criminal activity and will tighten security procedures.

### Six New Air Routes

40060261e Nanchang JIANGXI RIBAO in Chinese  
10 Mar 88 p 1

[By Gao Jian [7559 0256]]

[Text] With the approval of the Civil Aviation Administration of China, the Provincial Civil Aviation Administration will open six new air routes beginning on 16 March. The new routes are: Nanchang-Wuhan-Xi'an, Xi'an-Wuhan-Fuzhou, and Fuzhou-Nanchang on Mondays and Wednesdays. Nanchang-Fuzhou, Fuzhou-Wuhan-Xi'an, and Xi'an-Wuhan-Nanchang, on Fridays and Sundays. All these flights will be round trips on the same day. In addition, the number of flights between Beijing and Nanchang will be increased from four to seven round trips daily with BAE-146 airplanes.

12802

### Railways Face Busier Months

OW2805035188 Beijing XINHUA in English  
1406 GMT 27 May 88

[Text] Beijing, May 27 (XINHUA) — China's already overloaded railways are facing another transport peak of passengers which is expected to far exceed the railways' existing carrying capacity of 3 million people a day, Railway Ministry officials have warned.

Although there is still a month to go before the traditional [words indistinct] cope with the overflow of passengers in the pending summer period.

According to ministry officials, China's 52,000-kilometre railway network beset with out-dated facilities, is expecting more traffic because of the summer holidays, booming tourism, increasing numbers of college students and a large number of rural laborers on the move.

More foreign tourists are expected in July and August, Chinese tourism sources said. There were 15.4 percent more foreign travellers in the first three months of the 1988 "international year of travel" than in the same period last year. Tourist spots like Qingdao, Harbin, Xian, Guilin, Hangzhou, Suzhou, Beijing, Shanghai and Guangzhou will be particularly affected, officials predict.

A dozen extra passenger trains are to be brought into service to cope with the problem, railway officials said. But Zhou Zhenqing, a ministry official in charge of passenger transport, is not optimistic. "This is an utterly inadequate measure," he said, adding that the limited railway [words indistinct] unable to handle so many passengers.

He said that highways, [words indistinct] brought into full play to cope with the extra movements of passengers. Zhou said that planners should avoid holding meetings and conferences in popular tourist spots. Ministry officials say that trains, which almost always operate at full capacity, have been [word indistinct] record numbers of passengers since the spring festival. In February, the railways moved over 3.4 million passengers per day to different corners of the country, 400,000 more than railway capacity.

In March and April, capacity was exceeded by 250,000 passengers a day, the officials went on, adding that there are also a great number of railway workers and about 90,000 extra travellers each day who are not accounted for.

Following the traffic peak between the end of April and beginning of May, the waves of passengers have failed to subside as usual. Railway officials admit that they are very worried by this trend.

### **Hubei Bridge To Cross Yangtze River**

*HK0606145188 Beijing CEI Database in English*  
6 Jun 88

[Text] Wuhan (CEI)—A new highway bridge across the Yangtze River will be constructed in Huangshi City, Hubei Province. Construction is scheduled to be completed in five years.

The bridge will be 1,243 meters long and 19.5 meters wide with an 1,122-meter bridge approach. The investment will total 200 million yuan including 30 million U.S. dollars of foreign capital.

Huangshi City is located in the southeast of Hubei Province. It is an important raw material industrial base in China.

## EAST REGION

### Anhui People's Congress Appointments 40050212b Hefei ANHUI RIBAO in Chinese 1 Mar 88 p 1

[Unattributed report: "Namelist of Appointments by the Second Session of the Standing Committee of the Seventh People's Congress of Anhui Province on 28 February 1988"]

[Text] It is resolved to appoint:

Zhao Huaishou [6392 2037 1108]  
Chen Jian [7115 0256]  
Wu Changqi [0702 2490 2601]  
Zhang Benying [1603 2609 5391]  
Du Yiqin [2659 1355 3866]  
Zhang Guohui [1728 0948 6540]  
Zhou Rili [0719 2480 4409]  
Wang Yang [3076 3152]  
Zhang Xuemin [1728 1331 2404]

Wang Jie [3769 2638]  
Wang Shengjun [3769 0524 0193]  
Chen Ruiding [7115 3843 7844]  
Jiang Dexing [1203 1795 7451]  
Song Wenli [1345 2429 4409]  
Nie Guangwu [5119 1684 2976]  
Ji Jiahong [1323 1367 1347]  
Yen Lin [0917 7207]  
Wang Qinghua [3769 3237 5478]  
Fang Youde [2455 2589 1795]

Wu Tiandong [0702 1131 2767]  
Hao Chaode [6787 2600 1795]  
Yang Lianzhu [2799 6647 3796]  
Ling Lin [0407 7207]  
Song Lingsheng [1345 7117 3932]  
Zhou Weihai [0719 4850 3189]  
Sun Jihuai [1327 4949 2037]

Tao Junming [7118 0193 2494]  
Hu Bing [5170 0393]  
Li Shilin [2621 4258 7792]  
Sun Jie [1327 2638]  
Xie Zhaozhang [6200 0340 3864]  
Luo Linfa [5012 2651 4099]

Cui Zikang [1508 0037 1660]

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Secretary-General of the Provincial People's Government  
Chairman of the Provincial Planning Committee  
concurrent Chairman of the Provincial Economic Committee  
Chairman of the Provincial Science and Technology Committee  
concurrent Chairman of the Provincial Education Committee  
Chairman of the Provincial Foreign Trade Committee  
Chairman of the Provincial Rural Economy Committee  
Chairman of the Provincial Physical Education Committee  
Chairman of the Provincial Nationalities (Minorities) Affairs Committee  
Chairman of the Office of Inter-province Affairs  
Head of the Provincial Department of Public Safety  
Head of the Provincial Department of Justice  
Head of the Provincial Department of Citizen's Affairs  
Head of the Provincial Department of Machine Industries  
Head of the Provincial Department of Coal Industries  
Head of the Provincial Department of Light Industries  
Head of the Provincial Department of Textile Industries  
Head of Provincial Department of Transportation  
Head of the Provincial Department of Agriculture, Animal Husbandry, and Fishery  
Head of the Provincial Department of Forestry  
Head of the Provincial Department of Water Conservancy  
Head of the Provincial Department of Finance  
Head of the Provincial Department of Commerce  
Head of the Provincial Department of Culture  
Head of the Provincial Department of Public Health  
Head of the Provincial Department of Urban and Rural Construction and Environmental Protection  
Head of the Provincial Bureau of Grain and Oil Food Products  
Head of the Provincial Bureau of Personnel Affairs  
Chief of the Provincial Bureau of Statistics  
Chief of the Provincial Bureau of Audit  
Chief of the Provincial Bureau of Commodity Prices  
Head of the Provincial Bureau of Industrial and Commercial Administration  
Chief of the Provincial Bureau of Tourism.



**Fujian Discipline Inspection Work**  
40050212a Fuzhou FUJIAN RIBAO in Chinese  
14 Mar 88 p 1

[by the Provincial Discipline Inspection Commission Office]

[Excerpts] Recently, the Provincial Discipline Inspection Commission proposed "Views on Current Work" in which it is pointed out that under the guidance of the Provincial Discipline Inspection Commission and the Provincial Party Committee and its subordinate Party Committees, and Commissions of all levels in the province have accomplished much in the last few years in matters of rectifying discipline, launching party education programs, as well as investigating and handling cases of grave importance, but in view of the current situation a great deal more remains to be done. From this time onward, the work of inspecting discipline should be to seek a consensus of understanding, using the theory of the initial stage of socialism and the basic line of the party to renew concepts, to liberate ideas still further, to reinforce the consciousness toward reform and liberalization, and to clarify the responsibilities involved in discipline inspection work so as to differentiate principles in accordance with the policy of the party.

The document "Views on Current Work" further points out that in the work process the following relationships must be correctly handled:

1. The function of building party style in the promotion of reform and liberalization must be stressed; but there must be sufficient understanding of the fact that reform is an important means of building party style.
2. The work on the system must be strengthened through in-depth reform and liberalization, yet the party must be as strictly controlled as possible. Those who created disastrous effects through open denunciation of the 4 cardinal principles due to their inability to withstand the trials of administration, reform, and liberalization, and those rotten elements who extorted bribes, or were guilty of graft and embezzlement, or committed serious crimes of selling out the interests of the state in the process of certain economic activity, especially involving foreign trade activities, should be resolutely prosecuted and firmly expelled from the party. Those who put up obstacles in the path of reform and liberalization, trump up false accusations, create rumors to incite a mob, carry out vengeance, attacks, and frame-ups, or instigate riotous disturbances in order to interfere with reform and liberalization should also be investigated and severely dealt with.
3. While attention must be given to demanding material benefits on the basis of a merchandise economy, ideological education must also be stressed. Ideological education cannot do it all, therefore, we must adjust the material benefit relationship based upon the principles

of a merchandise economy and carry out party education at the same time. In the process of implementing the principle of distribution according to labor to realize equality for everyone with respect to merchandise, Laws governing prices and values must be respected.

4. Maintain strict party discipline and firmly establish comprehensive management of party style. Ideological education should proceed among party members to raise their quality. Through reform and system construction, the soil from which the incorrect ones multiply will diminish. Through the utilization of the laws of the merchandise economy, the material benefit relationship may be improved. Through combining party discipline, political discipline, and the establishment of a legal system, the style of the party, the mood of the people, and the atmosphere of the society will continue to improve.

5. High ranking party members should be encouraged to experiment and search without fear, while some comrades should be regularly reminded not to create problems. Three situations should be clearly separated. 1) The situation of mistakes due to lack of experience; 2) using reform as an excuse to pursue corrupt actions in the interest of a small group; 3) deliberately damaging the public to enrich the private. The first situation is permissible, yet the experience must be summarized to serve as a lesson. The second is not to be permitted and investigation, criticism, and correction are required. The third must be prosecuted. Regardless of which of the above categories a case belongs to, education must take precedence in order that being bold in reform is encouraged while strict obedience of discipline and the law is enforced. Furthermore, there are a few party staff members who are fervent about engaging in internal bickering, pay no attention to unity, have no consideration for the interest of the whole, or even spread gossip and rumor to affect adversely and to obstruct, directly or indirectly, the reform and liberalization results of our province. A high degree of attention must be given to this phenomenon so as to have it solemnly corrected and resolved.

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**Crime Rate Among Students Decreases**  
40050212b Shanghai JIEFANG RIBAO in Chinese  
29 Feb 88 p 2

[by correspondent Yang Anding [2799 1344 1353], and reporter Zhuang Yuxing [8369 3768 5281]]

[Excerpts] The city's most recent statistics indicate a decrease in the crime rate for 2 consecutive years among elementary and high school students: a drop of 31.2 percent from 1985 to 1986 and another 25.14 percent from 1986 to 1987.

The obvious decrease in the crime rate in the city's schools is mainly due to the successful work of strengthening students' ideological education. The city combined

the educational energy of the three factors of school, family, and society so as to achieve early prevention and control of law-violating young students. A group of students on the border line of committing crimes have thus been saved.

The work-study schools contributed a great deal in the early crime prevention and control work. The 15 work-study schools of the city established an external liaison team to participate directly in the ideological education

work of elementary and high school students within each district and provide special assistance to teach the border line criminal elements. According to incomplete statistics, early crime prevention education has been given to 5,000 students in the 15 work-study schools to cause these students to show various degrees of transformation.

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